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Canada. Parliament. House.

Sessional Committee on Railways,
air lines, and shipping owned
and controlled by the Government.

Minutes and evidence.

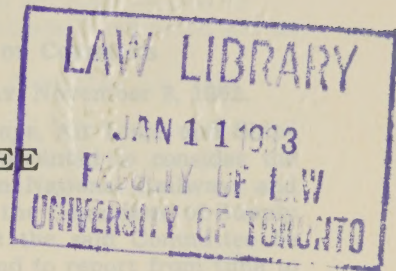
Chairman: Honourable W. Earl Rowe.

Numbers: 1-4.

1962.

First Session—Twenty-fifth Parliament

1962



SESSIONAL COMMITTEE
ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. ^{William} EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, NOVEMBER 19, 1962

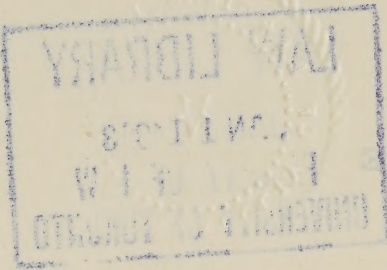
TUESDAY, NOVEMBER 20, 1962

Canadian National Railways Annual Report (1961)

WITNESSES:

The Honourable Léon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1962



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SESSIONAL COMMITTEE
ON
RAILWAYS, AIR LINES AND SHIPPING

Chairman: Hon. W. Earl Rowe
Vice-Chairman: Mr. Heber Smith

and Messrs.

Addison
Badanai
Baldwin
Belzile
Bourbonnais
Caouette
Chevrier
Coates

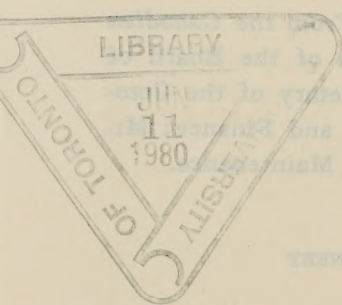
Fairweather
Fisher
Foy
Granger
Grégoire
Lamoureux
Mitchell
Muir (*Lisgar*)

Ouellet
Pascoe
Prittie
Pugh
Rideout
Rinfret
Robinson
Rouleau

(Quorum—14)

R.-L. Boivin,
Clerk of the Committee.

NOTE:—Messrs. Granger, Belzile, Mitchell, Muir (*Lisgar*) and Baldwin were replaced by Messrs. Benidickson, English, Carter, Smallwood and Smith (*Calgary South*) prior to the first meeting. Mr. Prittie was replaced by Mr. Lewis prior to the second meeting. Mr. Smallwood was replaced by Mr. McDonald (*Hamilton South*) prior to the third meeting.



ORDERS OF REFERENCE

HOUSE OF COMMONS

THURSDAY, November 8, 1962.

Resolved,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys, and that the said Committee be empowered to send for persons, papers and records, and to report from time to time, and that notwithstanding Standing Order 67 in relation to the limitation of the number of Members, the said Committee shall consist of 26 Members.

FRIDAY, November 9, 1962.

Ordered,—That the Sessional Committee on Railways, Air Lines and Shipping consist of Messrs. Addison, Badanai, Baldwin, Belzile, Bourbonnais, Caouette, Chevrier, Coates, Fairweather, Fisher, Foy, Granger, Grégoire, Lamoureux, Mitchell, Muir (*Lisgar*), Ouellet, Pascoe, Prittie, Pugh, Rideout, Rinfret, Robinson, Rouleau, Rowe, and Smith (*Simcoe North*); and that the Annual Reports for 1961 of the Canadian National Railways, the Canadian National Railways Securities Trust, and Trans-Canada Air Lines, the Auditors' Reports to Parliament in respect of the Canadian National Railways and of Trans-Canada Air Lines, tabled on March 20, 1962; the budget for 1962 of Trans-Canada Air Lines tabled on February 9, 1962; and the budget for 1962 of the Canadian National Railways tabled on April 18, 1962, be referred to the said Committee; and that items numbered 80—Newfoundland Ferry and Terminals, 85—Prince Edward Island Car Ferry and Terminals, 100—Maritime Freight Rates Act, as listed in the Revised Estimates of 1962-63, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

FRIDAY, November 16, 1962.

Ordered,—That the names of Messrs. Benidickson, English, Carter, Smallwood, and Smith (*Calgary South*) be substituted for those of Messrs. Granger, Belzile, Mitchell, Muir (*Lisgar*), and Baldwin on the Sessional Committee on Railways, Air Lines and Shipping.

MONDAY, November 19, 1962.

Ordered,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 Members; that the said committee be empowered to sit while the House is sitting; and that the said Committee be authorized to print, from day to day, 800 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 66 be suspended in relation thereto.

MONDAY, November 19, 1962.

Ordered,—That the name of Mr. Lewis be substituted for that of Mr. Prittie on the Sessional Committee on Railways, Air Lines and Shipping.

TUESDAY, November 20, 1962.

Ordered,—That the name of Mr. McDonald (*Hamilton South*) be substituted for that of Mr. Smallwood on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, November 19, 1962.

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 800 copies in English and 250 copies in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted.

W. EARL ROWE,
Chairman.

NOTE: *The said report was concurred in this day.*

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MINUTES OF PROCEEDINGS

MONDAY, November 19, 1962.

(1)

The Sessional Committee on Railways, Air Lines and Shipping met at 11.35 o'clock a.m. this day for organization purposes.

Members present: Messrs. Badanai, Carter, Coates, English, Fairweather, Fisher, Foy, Gregoire, Prittie, Pugh, Rideout, Rinfret, Robinson, Rowe, Smallwood—(15).

The Clerk of the Committee attended the election of the Chairman.

Moved by Mr. Smallwood, seconded by Mr. Fairweather,

That the Honourable Earl Rowe do take the Chair of this Committee as Chairman.

On motion of Mr. Carter, seconded by Mr. Foy, nominations were closed.

Honourable Earl Rowe was declared duly elected Chairman. He took the Chair and thanked the Committee for the honour conferred upon him.

The Chairman invited nominations for Vice-Chairman.

Mr. English moved, seconded by Mr. Robinson, that Mr. Heber Smith be elected Vice-Chairman.

On motion of Mr. Badanai, seconded by Mr. Coates, nominations were closed and Mr. Heber Smith was declared duly elected Vice-Chairman of this Committee.

The Chairman read the Orders of Reference.

On matters raised by Mr. Fisher, the Committee agreed (a) to seek some assurance that the Resolution on the Freight Rates Reduction Act standing in the name of the Minister of Transport would not be proceeded with in the House before the Committee had completed its hearings on this subject; (b) after completion of its hearings on C.N.R. matters, not to proceed to T.C.A. matters until the next day; and (c) not to sit on Wednesday evening.

On motion of Mr. Rideout, seconded by Mr. Carter,

Resolved,—That the Committee seek authority to print, from day to day, 800 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Coates, seconded by Mr. English,

Resolved,—That the Committee recommend that its quorum be set at 10 members.

On motion of Mr. Foy, seconded by Mr. Carter,

Resolved,—That the Committee seek leave to sit while the House is sitting.

The Committee then considered the time of its future sittings and agreed to meet on Tuesday, November 20th, at 10.00 a.m., 3.00 p.m. (or after Orders of the Day) and 8.00 p.m.; on Wednesday, November 21st, at 10.00 a.m. and 3.00 p.m. (or after Orders of the Day), and on Thursday, November 22nd, at 10.00 a.m., 3.00 p.m. (or after Orders of the Day) and 8.00 p.m.

At 12.05 o'clock p.m. the Committee adjourned until Tuesday, November 20th, at 10.00 o'clock a.m.

TUESDAY, November 20, 1962.

(2)

The Sessional Committee on Railways, Air Lines and Shipping met this day at 10.00 o'clock a.m. The Chairman, the Honourable W. Earle Rowe, presided.

Members present: Messrs. Addison, Badanai, Benidickson, Carter, Chevrier, Coates, English, Fairweather, Fisher, Foy, Grégoire, Pascoe, Pugh, Rideout, Rinfret, Robinson, Rouleau, Rowe, Smallwood, Smith (*Simcoe North*).—(20).

In attendance: The Honourable Leon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-President, Accounting and Finance.

The Chairman opened the meeting and invited the witness, Mr. Gordon, to make a statement. The witness made an initial statement on the 1961 Annual Report of the C.N.R., and answered questions on his appointment and on the implications, for the C.N.R., of the recommendations of the Royal Commission on Transportation.

The Chairman then proposed that the Committee proceed to the consideration of the Annual Report of the C.N.R. paragraph by paragraph. The Committee agreed to this procedure, but continued temporarily on general questioning.

At 12.30 o'clock p.m., the Committee adjourned until 3.00 o'clock this afternoon.

AFTERNOON SITTING

(3)

The Sessional Committee on Railways, Air Lines and Shipping resumed at 3.30 o'clock p.m., the Chairman, the Honourable W. Earle Rowe, presided.

Members present: Messrs Addison, Badanai, Benidickson, Carter, Chevrier, Coates, English, Fairweather, Fisher, Foy, Gregoire, McDonald (*Hamilton South*), Pascoe, Pugh, Rideout, Rinfret, Robinson, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(20).

In attendance: The same persons as were called at the morning sitting of the Committee.

The Committee resumed general questioning of the witnesses on the Annual Report (1961) of the Canadian National Railways.

The Committee then proceeded to review the Annual Report, paragraph by paragraph.

At 5.30 o'clock p.m. the Committee adjourned until 8.00 o'clock p.m. this evening.

EVENING SITTING

(4)

The Sessional Committee on Railways, Air Lines and Shipping resumed at 8.05 o'clock p.m. The Chairman, the Honourable W. Earle Rowe, presided.

Members present: Messrs. Addison, Badanai, Benidickson, Bourbonnais, Carter, Chevrier, English, Fisher, Foy, Lamoreux, Lewis, McDonald (*Hamil-*

ton South), Pascoe, Pugh, Rideout, Rinfret, Robinson, Rouleau, Rowe, Smith (Simcoe North), Smith (Calgary South).—(21).

In attendance: The same persons as were called at the morning sitting, and Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Committee resumed consideration of the Annual Report (1961) of the Canadian National Railways, reviewed Section 1, Financial Review and Section 2, the System, and proceeded to Section 3, Operations.

A statement showing the capital expenditures made over the past ten years by the Canadian National Railways was tabled by Mr. Gordon, as requested. (*See Appendix A to this day's Minutes of Proceedings*).

At 10.05 o'clock p.m., the Committee adjourned until 10.00 o'clock a.m. November 21st.

R.-L. Boivin,
Clerk of the Committee.

Appendix A

CANADIAN NATIONAL RAILWAYS—SYSTEM

Gross Capital Additions

Year	
1952	\$ 144,307,779
1953	145,480,959
1954	177,369,556
1955	82,561,433
1956	204,535,418
1957	255,857,729
1958	298,113,712
1959	222,344,518
1960	172,612,584
1961	118,151,728
Total 1952 to 1961 inclusive	<u><u>\$1,821,335,416</u></u>

Details of Capital Additions

New lines and diversions	20,155,227
Roadway improvements	348,690,901
Large terminals	96,726,952
Yard tracks and sidings	27,443,075
Buildings	87,030,889
Highway crossing protection	4,407,442
Signals	25,291,831
Roadway and shop machinery	38,301,405
Other facilities	22,760,441
Telecommunication facilities	120,883,107
Branch lines	64,373,256
Hotels	43,831,116
Equipment	851,275,709
Government of Canada expenditures on Canadian Government Railways	58,406,995
Properties of companies acquired	11,757,070
	<u><u>\$1,821,335,416</u></u>

Source: Canadian National Railways.

EVIDENCE

TUESDAY, November 20, 1962.

The CHAIRMAN: Gentlemen, I see a quorum, so we will proceed with our meeting. This morning we have the presentation of the report of the Canadian National Railways by Mr. Donald Gordon and his associates. I presume Mr. Gordon will introduce his associates and give us a general statement.

Mr. DONALD GORDON (*President, Canadian National Railways*): Thank you, Mr. Chairman. First of all I would like to introduce on my right Mr. Toole who is vice-president, accounting and finance; Mr. Demcoe, vice-president, transportation and maintenance, and Mr. Ralph Vaughan who is sitting beside me and who is secretary of the company. I hope these three gentlemen will assist me in the course of the questioning and will be available for detailed answers.

I understand, Mr. Chairman, that you would prefer that I begin with an opening statement which might cover the entire report in order to avoid reading the report; or do you wish the report read in detail?

The CHAIRMAN: I think at our organization meeting it was more or less generally agreed that you might make a statement and then, the report having been printed for some time, questions might be asked about certain aspects of it later. I believe matters might be expedited in this manner, by printing the report.

THE ANNUAL REPORT OF CANADIAN NATIONAL RAILWAYS FOR THE YEAR 1961

Board of Directors: Donald Gordon, C.M.G., LL.D., *Chairman*, Montreal; G. E. Ayers, Lachute Mills; R. A. Brown, Jr., Calgary; Guy Charbonneau, Montreal; W. A. Colquhoun, Sydney; J. R. Griffith, Saskatoon; W. C. Koerner, Vancouver; J.-Louis Levesque, Montreal; A. McD. McBain, Toronto; H. I. Price, Toronto; J. B. Sangster, Regina; W. G. Stewart, Q.C., Moncton.

Officers: Donald Gordon, C.M.G., LL.D., *President*; N. J. MacMillan, Q.C., *Executive Vice-President*; S. F. Dingle, *System Vice-President*; R. H. Tarr, *Vice-President and Executive Assistant*; E. A. Bromley, *Vice-President, Purchases and Stores*; O. M. Solandt, O.B.E., M.D., D.Sc., *Vice-President, Research and Development*; W. T. Wilson, *Vice-President, Personnel and Labour Relations*; H. C. Friel, Q.C., *Vice-President, Law*; J. L. Toole, *Vice-President, Accounting and Finance*; A. H. Hart, *Vice-President, Sales*; F. A. Gaffney, *Vice-President, Highway Services*; J. W. Demcoe, *Vice-President, Transportation and Maintenance*; H. C. Grayston, *Vice-President, Atlantic Region*; J. A. McDonald, *Vice-President, St. Lawrence Region*; E. Wynne, *Vice-President, Great Lakes Region*; D. V. Gonder, *Vice-President, Prairie Region*; G. R. Graham, *Vice-President, Mountain Region*; H. A. Sanders, *Vice-President and General Manager, Grand Trunk Western Railroad*; R. T. Vaughan, *Secretary of the Company*; J. R. White, *General Manager, Telecommunications*; C. A. Harris, *Director of Public Relations*; J. C. Kenkel, *European General Manager*; H. M. Blaiklock, *General Manager, Real Estate*; S. S. Chambers, *General Manager, Hotels*; K. E. Dowd, M.D., C.M., F.A.C.S., *Chief Medical Officer*; E. A. Spearing, M.B.E., *Director of Investigation*; L. J. Mills, O.B.E., *Comptroller*; E. J. Denyar, *Treasurer*.

SESSIONAL COMMITTEE

FINANCIAL HIGHLIGHTS

	1961	1960	Better or (Worse)
Railway operating revenues	\$710,305,173	\$693,141,106	\$17,164,067
Railway operating expenses	722,147,583	705,818,310	(16,329,273)
Net railway operating loss ...	11,842,410	12,677,204	834,794
Other income	7,010,548	6,203,472	807,076
Deficit before fixed charges	4,831,862	6,473,732	1,641,870
Total fixed charges	72,987,242	69,088,803	(3,898,439)
Less Interest on loans to Trans-Canada Air Lines	10,511,332	8,065,758	2,445,574
Net fixed charges	62,475,910	61,023,045	(1,452,865)
Deficit	\$ 67,307,772	\$ 67,496,777	\$ 189,005

FINANCIAL REVIEW

The Honourable Leon Balcer, P.C., Q.C., M.P.,
Minister of Transport, Ottawa, Ontario

The Board of Directors submits hereunder the Annual Report of Canadian National Railways for the year 1961.

The sensitivity of rail traffic volume to Canadian business activity was reflected in Canadian National's financial results for 1961. The slowing down of economic activity which was evident in 1960 continued into the first quarter of 1961, during which time revenue ton miles declined below 1960 volume levels. Then, during the second quarter, the economic trend improved and CN's business, along with that of other Canadian industries, started to recover. By April, traffic had begun to exceed 1960 levels and for the year as a whole a total increase of 2.1 percent in revenue ton miles was registered.

Total operating revenues of \$701.3 million represented an increase of \$17.2 million, or 2.5 percent over 1960. This improvement was substantially offset by rising operating costs which, primarily owing to wage increases, reached \$722.1 million, or \$16.3 million higher than in 1960. After taking into account other income of \$7.0 million and fixed charges of \$62.5 million, the end result was an overall deficit of \$67.3 million.

Operating Revenues

Included in the total railway operating revenues was \$27.9 million in interim payments from the Federal Government, related to recommendations of the Royal Commission on Transportation. Freight revenues decreased by \$12.3 million or 2.3 percent despite the 2.1 percent increase in revenue ton

miles. This was the result of a 4.3 percent decrease in the revenue per ton mile, principally due to a higher proportion of low-rated traffic. Tonnage of some commodities, particularly of cement and of grain moving to the west coast for shipment to the Orient, showed increases. However, there were significant decreases in the movement of coal, ores and concentrates, gravel and crushed stone, iron and steel products, automobile parts and gasoline.

Subsidy payments, including those related to the report of the Royal Commission on Transportation, totalled \$66.7 million in 1961. Represented in the total were: (1) CN's share of payments provided under the Freight Rates Reduction Act which reduced, for certain classes of traffic, the full impact of the 17 percent freight rate increase authorized in 1958; (2) payments under the Maritime Freight Rates Act; (3) CN's share of contributions to the maintenance of mainline track between Eastern and Western Canada, provided under the East-West Bridge Subsidy; (4) reimbursements, which are recorded under Other Revenues in the System Accounts, to cover operating losses on Newfoundland and Prince Edward Island steamship and ferry services operated by CN for the Federal Government.

The following table compares subsidy payments in 1960 and 1961:

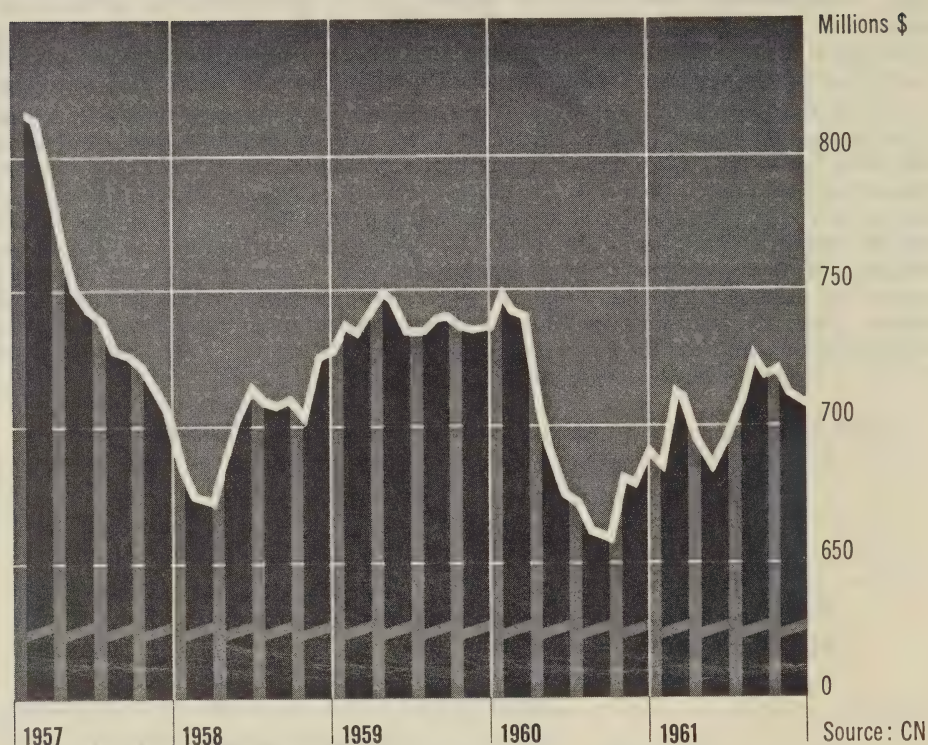
	1961 (Millions of Dollars)	1960	Increase or (Decrease)
Freight Rates Reduction Act	\$10.7	\$10.4	\$ 0.3
Maritime Freight Rates Act	10.0	11.9	(1.9)
East-West Bridge Subsidy	3.5	3.0	0.5
	24.2	25.3	(1.1)
Interim Payments	27.9		27.9
	52.1	25.3	26.8
Newfoundland and P.E.I. Steamship Services	14.6	11.0	3.6
Total	\$66.7	\$36.3	\$30.4

Piggyback revenues amounted to \$6.4 million, compared with \$6.1 million in 1960. Passenger revenues declined by \$3.5 million or 9.2 percent from 1960, while Express revenues dropped \$1.6 million or 3.5 percent. Telecommunications' revenues from commercial services were 10 percent above those of 1960, reaching a new high of \$32.9 million.

Operating Expenses

Determined efforts to keep all controllable expenses to a minimum resulted in a reduction (excluding new wage increases) of \$6.0 million in operating expenses despite a modest increase of 1.5 percent in gross ton miles produced. This reduction was more than offset by the addition of \$22.3 million to wage costs resulting from contract settlements with unions. Significant cost reductions were achieved in equipment maintenance due to greater efficiency and reduced work load in main shop repairs to locomotives and passenger cars. Also, train and yard operating costs per gross ton mile continued to decline,

Operating Revenues Seasonally Adjusted at Annual Rates



reflecting benefits from dieselization, centralized traffic control and improved yard facilities.

Taxes amounted to \$19.8 million, down \$0.5 million from 1960. They represented payments of \$5.2 million for unemployment insurance; \$1.3 million and \$8.5 million in Canadian provincial and municipal taxes respectively; \$2.4 million in U.S. state taxes, and \$2.4 million in payments under the U.S. Railroad Retirement Act.

Equipment rentals increased by \$0.5 million due to a decrease in the use of Canadian National equipment by United States railroads.

Fixed Charges

A \$1.5 million increase in net fixed charges in 1961 compared with 1960 resulted from the full-year impact of CN capital borrowings made in 1960. No new borrowings were required to finance CN's capital expenditures in 1961. The effective interest rate on the debt outstanding at the end of 1961 was 4.3 percent, unchanged from that at the end of 1960.

Capital Expenditures

Capital expenditures in 1961 amounted to \$117.2 million compared with the approved capital budget of \$143.2 million, and were \$63.8 million lower than during the previous year. Capital expenditures in the two years by major categories are as follows:

	1961	1960
	(Millions of Dollars)	
Road property	\$ 64.4	\$ 82.0
Large terminals	13.3	19.1
Telecommunications facilities	19.2	26.6
Branch lines	1.3	1.2
Hotels	1.8	3.2
Equipment	11.9	33.6
	<hr/>	<hr/>
	111.9	165.7
Investment in affiliated companies ..	5.3	5.3
Working capital	—	10.0
	<hr/>	<hr/>
Total	\$117.2	\$181.0
	<hr/>	<hr/>

THE SYSTEM

Organization

The transition to the new form of the System's management and administrative structure in Canada, comprising five regions subdivided into 18 management areas, was advanced during the year. In addition to the former regional operations responsibilities, there was transferred to Regional Vice-Presidents and, where applicable, to Area Managers, responsibility for the sales, accounting, public relations, freight claims, and sleeping, dining and parlour car functions in their territories. It is contemplated that responsibility for certain other functions will be delegated to regional and area officers in due course.

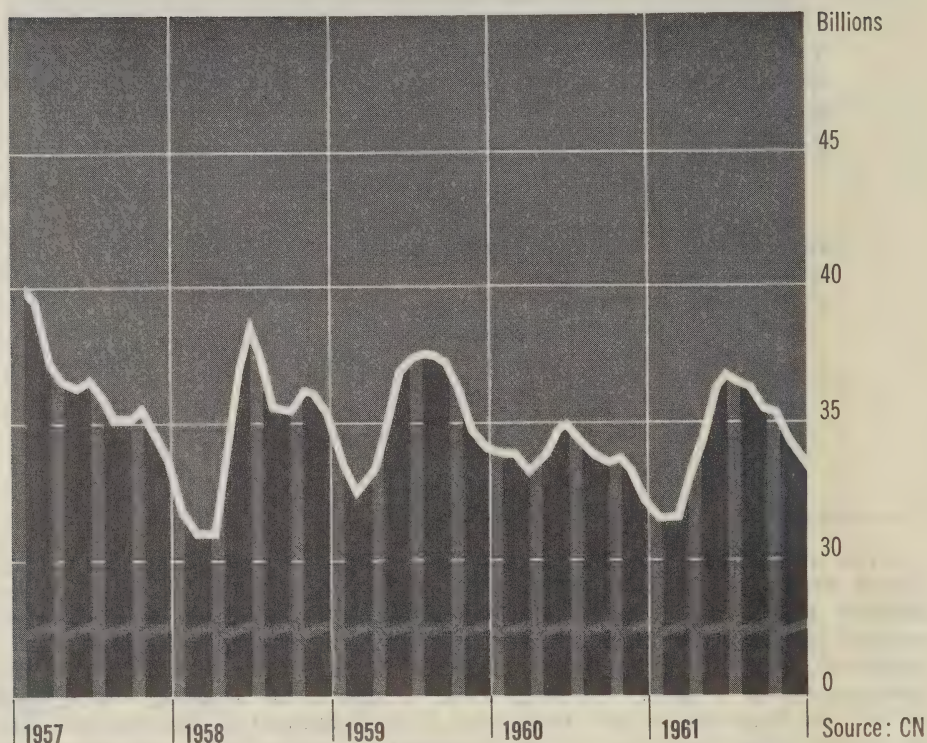
Progress was made in adapting the accounting function to the new form of organization. Steps were taken to improve the method of financial control and planning of the System's operations by identifying financial and statistical results more closely with managerial responsibility for them. Similarly, new procedures were developed for the presentation and handling of operating budgets by responsible organization units.

Studies were also advanced to develop new principles and methods for determining the revenue and profit of each region and area with a view to providing an improved basis for management decisions at those levels.

Data Processing

Development of a System-wide data processing network advanced during the year with the installation in Montreal of a new magnetic tape computer, the IBM 7070. Capable of storing vast quantities of information and processing it at high speeds, the IBM 7070 is the master computer in the network, while combination punched-card and magnetic tape satellite computers, known as IBM 1401's, are operated in conjunction with it. By year-end, four 1401's were in operation: two at Montreal for System Headquarters and the St. Lawrence Region, one at Moncton for the Atlantic Region, and one at Winnipeg for the Prairie Region. Two others are scheduled to be in operation at Toronto and Edmonton in 1962 to complete the system. The new computers will speed the flow of information and statistics across the country for such purposes as sales,

Revenue Ton-Miles Seasonally Adjusted at Annual Rates



payrolls, operations, car tracing, revenue and car accounting, operations research and equipment control. The flow of traffic information begins in the mechanized yard and freight offices, where information is recorded on punched cards which are then sent to regional headquarters. The cards are processed by the 1401's to produce information required by regional and area offices, and at the same time make a duplicate record on magnetic tape for the master IBM 7070. The 7070 consolidates, processes and stores information required for the overall operation of the CN System.

Headquarters Building

Improved working conditions and greater efficiency in the functioning of the System headquarters organization were achieved with the completion in May of the 17-storey Headquarters Building in Montreal. Previously, the 3,000 personnel attached to headquarters were located in 22 separate locations in the downtown area. For most of these employees, the new air-conditioned surroundings were in sharp contrast to previous accommodations since about half of the headquarters staff had been located for many years in temporary space, not originally designed for office purposes. The new building provides up-to-date office, cafeteria, communications and training facilities. The cafeteria floor is devoted to employees' interests, with a lounge, library and other recreational space managed by the employees' own association.

The Revenue Dollar

The Expense Dollar

		compensation to employees		
Freight Services	74.7		Operating Wages	53.0
Passenger Services	6.1		Pensions, Benefits and Welfare	4.7
Interim Payments	3.9		Fuel	3.3
Express	6.1		Depreciation	11.6
Telecommunications	4.6		Other Expenses	19.4
All Other	4.6		Net Fixed Charges	8.0

Corporate Structure

Three more companies were amalgamated under the name of Canadian National Railway Company during the year as part of the continuing program to simplify CN's corporate structure. They were Canadian National Rolling Stock Limited, Montreal Fruit and Produce Terminal Company Limited and Yukon Telephone Company Ltd.

OPERATIONS

Progress was made in achieving more efficient and economical operations under the System's overall modernization program.

Hump Yards

In Montreal, the second of four electronically-controlled hump classification yards went into operation. The first such yard opened in Moncton in 1960, and a third one, the Symington Yard in Winnipeg, is scheduled for completion in 1962. Meanwhile, work moved ahead on the fourth yard which is under construction at Toronto. These yards employ the most advanced design, equipment and methods to receive, classify and despatch freight trains. The Montreal Yard covers 834 acres and is capable of handling 7,000 cars a day. It incorporates a modern Railway YMCA, built by CN to accommodate train crews during stop-overs.

Signals and Radio

Installation of Centralized Traffic Control, a signalling system which controls mainline and yard train movements and increases capacity of single track, was extended an additional 331 miles in 1961. This brought the total number of miles of CTC-equipped track to 2,374.

Application of radio communications to train and yard operations continued throughout 1961, and by spring of 1962, trains on all principal traffic routes on the System will be equipped for "end-to-end" radio communications.

Fuel

A joint research program, carried out by the railways and the National Research Council, has indicated the possibility of using crude oil as fuel for diesel locomotives, thereby promising substantial savings in future fuel costs. Research work on this development is continuing.

Work Study

A steady increase in annual savings is being achieved through the continued work study program. Directed toward obtaining the most efficient use of men, materials and equipment, work study projects in 1961 produced traceable savings at an annual rate of \$1.6 million. Regular courses were conducted to increase the number of personnel trained in analyzing and improving work methods.

FREIGHT SERVICES

In pursuing its share of the transportation market in 1961, CN intensified its sales effort and adopted improvements and new developments in transportation services and equipment.

Sales

As a follow-up to the decentralization of the System's sales force which was accomplished in late 1960, training seminars were conducted to better equip management and field personnel to market and sell CN services. These seminars, which will be expanded in 1962, are vital to the development and application of a comprehensive sales program aimed at molding a specialist sales force capable of analyzing total distribution requirements of industry, and meeting these needs, as far as possible, with CN services.

Schedules

Faster train schedules were instituted on certain trans-continental and inter-city services. A daily freight train, the "Highballer", was introduced early in the year to offer shippers a faster service from Toronto-Montreal to cities in Western Canada. It provides delivery of shipments from Eastern Canada to Vancouver one day faster than previously. More efficient classification and departure operations in the new classification yards at Montreal and Moncton contributed to the speeding up of freight schedules between Central Canada and the Atlantic Provinces.

Incentive Rates

Incentive carload freight rates were established between a number of points in Ontario and Quebec to meet intense trucking competition. Incentive rates encourage loading to full capacity of freight cars and exploit the ability of the railway to carry heavier and bulkier loads at lower cost. Similar incentive rates were introduced for less-than-carload freight in Ontario and Quebec

and applied to all classes of goods except those not suitable for pickup and delivery.

Equipment

The purchase of 450 freight cars of various types during 1961 contributed to the modernization of the System's rolling stock. Progress was also made in the development of specialized equipment to serve particular industries and the adaptation of existing rolling stock to modern requirements. A novel method of converting ice refrigerator cars to mechanical refrigeration was developed by CN and is being tested on eleven cars. The conversion involves the mounting of a refrigeration unit in one of the car doors and a diesel generator and fuel tank underneath the car. The installation is considerably more economical than the conventional conversion where the units are placed in the end of the car, since no structural changes in the car are required and there is no loss in car capacity.

Two special types of rolling stock were developed to provide more economical transportation, loading and unloading of pulpwood and lumber. The development resulted from detailed research into the transportation requirements of these two industries and the ways in which they could be best served by the Canadian National.

Road-Rail Co-ordination

Closer co-ordination of rail and highway transport was advanced during 1961 by establishing in Edmonton, the System's first combined Express Freight terminal, Express and LCL Services were brought under one roof and the personnel consolidated into a single staff handling both types of traffic. This represented an important step in the planned development of a superior integrated service for package and non-carload shipments, employing the most efficient use of rail, piggyback and highway transportation. Experience gained at Edmonton will set the pattern for integration at other points across the System.

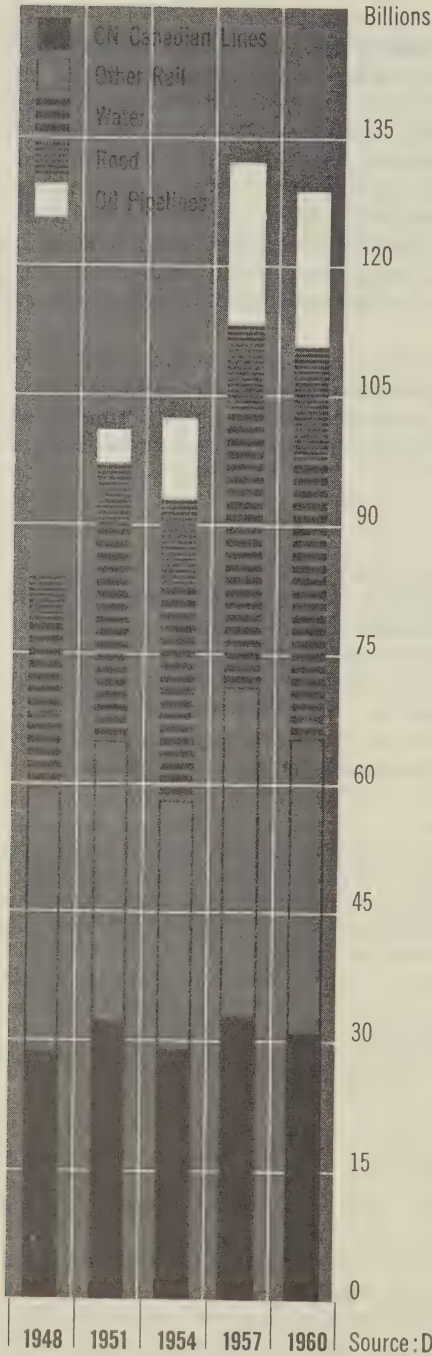
Piggyback

Piggyback operations were expanded in response to the growing demand for this type of road-rail service. Under Plan II piggyback, in which railway owned trailers are carried, service was extended to 15 additional communities in Central Canada, while under Plan I (commercial trailers), service extensions involved 15 cities and towns across the System. Other developments included the opening of a new piggyback terminal in Quebec City; a successful experiment in transporting Royal Mail by piggyback between Toronto and Quebec City, and the introduction of temperature-controlled service for refrigerated and heated trailers.

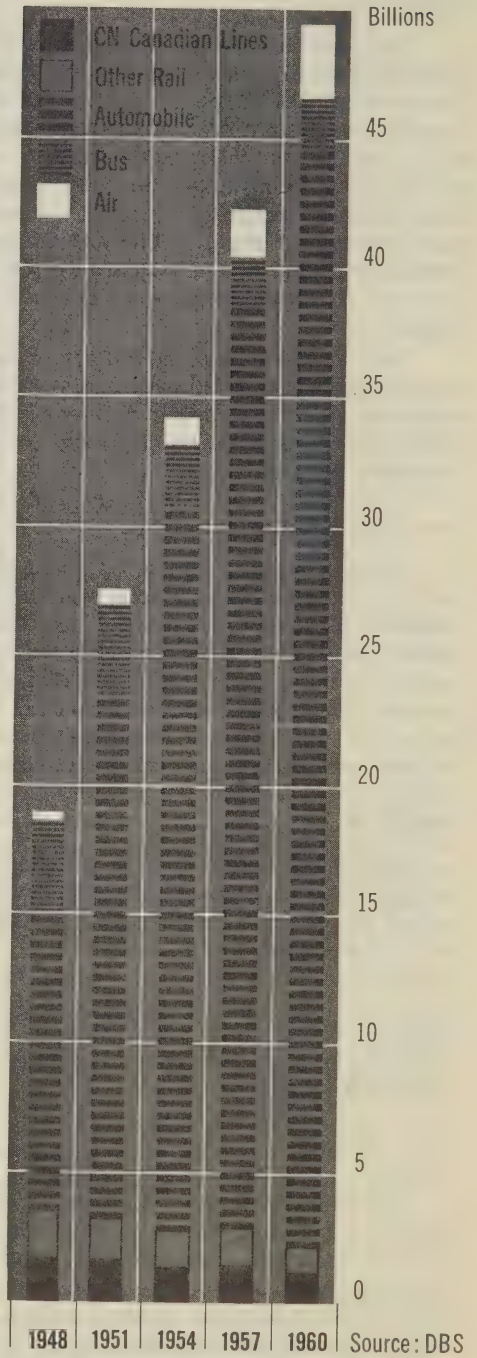
HIGHWAY SERVICES

Canadian National's highway operations were expanded during 1961 and further steps were taken to co-ordinate the System's trucking activities. All road services, including the long-established branch of Road Transport and the pick-up and delivery operations of Express and Less-than-Carload freight services, were brought together under a Department of Highway Services. This Department, which was established in January 1961, also directs and controls the subsidiary trucking companies acquired by Canadian National Transportation Limited.

Intercity Revenue Ton-Miles



Intercity Passenger Miles



During the year, CNTL expanded its operations in Central Canada through purchase of two Ontario Trucking firms, Hoar Transport Limited and Toronto-Peterborough Transport Company Limited. This brought to six the number of trucking companies (together with two associated terminal companies) wholly owned by CNTL. Exercise of an option to acquire control of a seventh company, Midland Superior Express Limited, was at year-end awaiting the outcome of hearings before the Quebec Transport Board. Total capital investment in trucking companies was \$11.9 million at the end of 1961 and an additional \$3.7 million was on deposit to meet commitments associated with negotiations for the purchase of additional companies. For the full year 1961 the net operating profits of all trucking companies wholly or partially owned at the year end was \$131,170, after provision for depreciation and for interest on advances made by CNTL to those companies for working capital and purchases of property and equipment.

Benefits from the alliance of road and railway operations go beyond the specific profit and loss figures of the trucking operations. These benefits are gained through the reduction of railway operating expenses achieved by replacement of money-losing railway routes with highway services; through increased piggyback revenues derived from the System's associated trucking services; through the improved ability of CN to compete, on an equal basis, for the type of traffic that formerly moved by rail but is now carried by highway transport; and through placing the System in a more effective position to serve a rapidly-changing industrial complex in which more and more industries are decentralizing to locations closer to markets, often at points not served by rail.

PASSENGER SERVICES

Fares and Ticketing

Incentive fare plans were broadened in 1961 in an effort to stimulate travel on principal passenger trains. Discount passenger fares for two or more persons travelling together were instituted for all classes of travel on all days of the week at all points in Canada. The discount plan provides a reduction of 40 percent for the second and each additional traveller in a group. Discounts were also introduced for two or more persons travelling together under all-inclusive fare plans.

In the fall, passenger ticketing procedures were substantially improved by replacing more than 200 separate ticket forms of various types and sizes with nine consolidated tickets. The new tickets speed selling and collection and simplify accounting. Six new forms were also devised to replace 71 tickets formerly used for CN's Maple Leaf Package tours.

TELECOMMUNICATIONS

The dimensions of CN Telecommunications' plant and services were broadened substantially during the year. Continuing expansion of private wire, Telex, telephone, radio and television broadcasting facilities contributed to record high revenues. Growth in plant capacity amounted to 180,000 miles of carrier telephone channels and 137,000 miles of carrier telegraph channels.

Microwave facilities were considerably expanded with the opening in July of the 1,200-mile system between Grande Prairie, Alberta, and the Yukon-Alaska border. Built as a vital communications link between Alaska and the United States, the southern terminal of the microwave system joins with Alberta Government Telephones while its northern connection is with Alaska Communications System. The system provides the basic radio equipment to carry 600 telephone circuits. Initially, 120 voice circuits were provided to meet current requirements.

The number of Telex subscribers reached 3,900 by year end, an increase of 600 over 1960. Seventeen new exchanges were added at points across Canada, bringing the total to 54.

CN Telecommunications played a principal role in providing a new automatic reservations system for Trans-Canada Airlines through provision of a 9,000-mile nation-wide telephone network, as well as installation and maintenance of equipment.

In Newfoundland, public telephone service was expanded and improved through extension of service to the Gander Bay area, installation of new automatic telephone exchanges in three centres and an increase in the number of long distance circuits between exchanges in the Province. In North-Western Canada, dial telephone service was expanded at Whitehorse, instituted at Fort Simpson and orders were placed for equipment to convert the manual exchange at Yellowknife. Preparations were made for the inauguration early in 1962 of telephone service at Fort Resolution, Fort Providence and Rae.

HOTELS

Financial Results

Income from Canadian National operated hotels and the Hotel Vancouver was down \$0.6 million compared with 1960, reflecting reduced occupancy, mainly at The Fort Garry in Winnipeg and the Hotel Vancouver, and heavy non-recurring renovation expenses at The Nova Scotian in Halifax. This decline was partially offset by an improvement of \$0.3 million over 1960, in the return from The Queen Elizabeth in Montreal. The net result in hotel income (after depreciation and before interest) compared with 1960 is as follows:

	Income or (Loss)	
	1961	1960
Canadian National Hotels Ltd.	\$(97,212)	\$ 458,469
The Queen Elizabeth	1,718,303	1,401,383
Total Hotel Income	\$1,621,091	\$1,859,852

Improvements

The hotel modernization and improvement program continued throughout the year. Public space areas of the old wing at The Nova Scotian were renovated. Television sets were installed in all bedrooms and suites at The Fort Garry and bedrooms on the first three floors were refurnished. Work was commenced on eight new four-room cabins at Jasper Park Lodge to replace nine of the original guest cabins.

Sales

In recognition of the impact of changes in travel patterns on the accommodation market, a separate Hotel Sales Department, with coast-to-coast coverage, was established during 1961. While the emphasis is being placed initially on convention solicitation, sales efforts will be expanded to include the merchandising of all facilities and services offered by the hotels. An arrangement was made during the year whereby Hilton of Canada Limited was retained in a consulting capacity to advise and assist the management of Canadian National Hotels on various phases of hotel operation, sales solicitation and administration. The arrangement will also provide closer co-ordination of sales activities between the two hotel systems and extension of the solicitation efforts of the world-wide Hilton Hotels organization to promote the attraction of convention, group and individual travel to all Canadian National hotels.

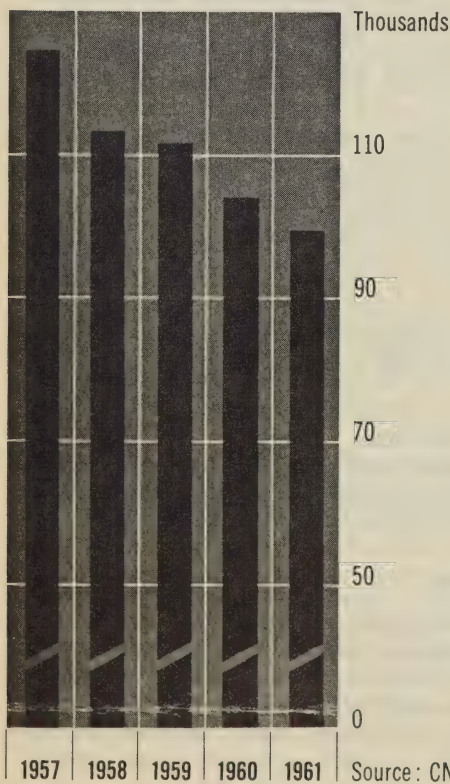
PERSONNEL AND LABOUR RELATIONS

Continuing management and union efforts were directed towards amending work rules to facilitate modern, efficient operations, and in response to problems associated with adjustments in the work force and the effects on employment of centralization of maintenance and repair facilities and other technological developments.

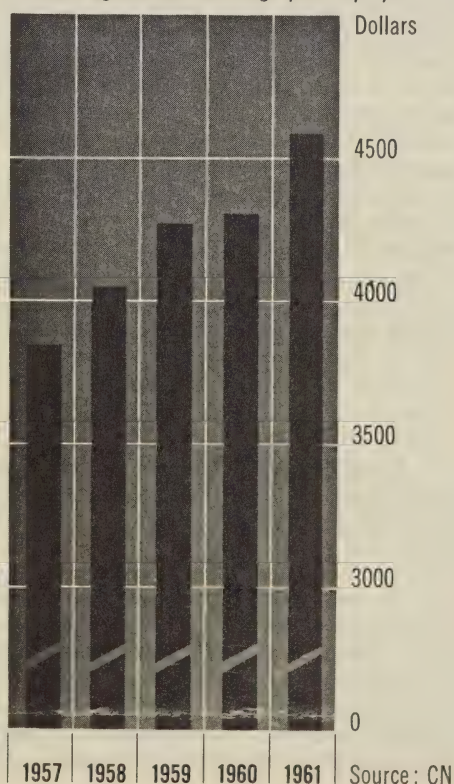
An important step was progress made towards combining Express, Cartage and Freight staffs into a single flexible group, shaped to meet the requirements of instituting the planned superior Express Freight service. Following fourteen months of constructive negotiations with the Canadian Brotherhood of Railway, Transport and General Workers, a pilot agreement was entered into which, it is hoped, will form the pattern for contracts covering 20,000 employees across the System. An important aspect of this agreement is the consolidation of seniority lists which would result in a greater measure of work security for long-service employees. Concurrently, discussions were carried on with other unions, notably the Brotherhood of Maintenance of Way Employees and the Order of Railroad Telegraphers, with a view to revision of seniority territories to provide more efficient administration and better work security for long-service employees in those groups.

The policy of keeping employees informed of organizational and operational changes of general interest, as well as specific matters affecting their job status, security or location, was actively pursued. This was done through meetings with employees and their union representatives and through the medium of existing and additional employee publications. In situations where

Average Number of Employees



Average Annual Earnings per Employee



staff reductions were unavoidable, employees were given individual counselling and assistance in obtaining alternative employment either in the company or with other employers.

Training continued to play a major role in upgrading and modernizing the skills of employees. To cope with increasing training needs regional training officers were appointed to supervise expanded programs. There were some 48,000 enrolments in training or retraining courses during the year. A large number of employees enrolled in more than one course.

Negotiations

Collective agreements with operating employees opened early in the year and the key issues in negotiations and subsequent conciliation proceedings centered on changes in work rules. Management proposals to the three unions (Brotherhood of Locomotive Engineers, Brotherhood of Railroad Trainmen, and Brotherhood of Locomotive Firemen and Enginemen), sought modernization of rules and practices that have become outdated through the change from steam to all-diesel locomotive operation.

In respect of the Brotherhood of Locomotive Engineers, a conciliation board report was received on November 30, 1961, and its recommendations for a 6½ percent wage increase in four steps, and amended work rules, were rejected by the union. The company accepted and implemented the recommendations effective January 1, 1962. At year-end, the firemen's and trainmen's cases were before boards of conciliation.

Wage increases amounting to approximately 14 cents per hour became effective during 1960-1961 under a two-year agreement concluded with 15 unions representing non-operating employees. This agreement was signed in May, 1961, and dated back to December 31, 1959. It expired on December 31, 1961, and new demands were received from these unions on December 20. They asked for: a wage increase of 5¾ percent plus 11 cents an hour (equivalent to 22 cents an hour); guaranteed full employment and maintenance of earnings for all employees with five years service or more, with the reduction in the number of these employees, in each craft or class, limited to attrition at a maximum rate of one percent per year; supplemental unemployment insurance benefits for all laid-off employees with less than five years service to maintain full take-home pay; an increase in the weekly indemnity under the Health and Welfare Plan; restrictions on contracting out of railway work; the establishment of retraining programs, and the extension of health and welfare benefits to pensioners.

In the United States the Presidential Commission established early in the year to study management's requests for changes in working rules governing operating employees (including CN's United States employees) had still not reported by year-end. Included among the proposals was the elimination of firemen from freight and yard diesel locomotives.

A dispute with the organizations representing non-operating employees on United States Lines, involving a proposed wage increase of 25 cents per hour and a six-months notice of layoff, was referred to a National Mediation Board.

PENSIONS

The rules of the 1959 Pension Plan were amended, with effect from January 1, 1961, to provide a substantial measure of portability of pension rights. Upon leaving service by resignation or otherwise, a member of the Plan having 15 years' service and years of service and age totalling 60 or more, may now elect to receive, commencing at normal retirement age, the full pension attributable to his years of service.

Statements of the Pension Trust Funds appear later in this Report. Total charges against CN earnings for pensions (excluding U.S. Railroad Retirement taxes of \$2.4 million) in 1961 compared with 1960 were as follows:

	1961 (Millions of Dollars)	1960	Increase
1935, 1952 and 1959 Pension Plans..	\$22.6	\$20.4	\$2.2
Pre-1935 Plans, etc. (including I.C. and P.E.I. Railways Employees' Provident Fund)	7.0	6.8	0.2
Total	\$29.6	\$27.2	\$2.4

In 1961 there was paid to pensioners and their beneficiaries under the various Canadian National pension arrangements, a total of \$32.8 million. As of December 31st, 28,575 individuals were receiving such payments.

OTHER DEVELOPMENTS

Branch Lines

Construction started during the summer on a 61-mile line to the Matagami Lake region in North-Western Quebec. Branching off a line built four years ago to link the Chibougamau area with the System, the new branch is being built primarily to transport zinc and copper concentrates. Preparatory work was undertaken for the construction of the first rail line into the Northwest Territories. As agent of the Federal Government, CN is building the line from near Grimshaw, Alberta, to Great Slave Lake and Pine Point Mines.

Industrial Development

Canadian National continued to promote and encourage the establishment of new resource, industrial and commercial development along its lines. An increasing number of manufacturing plants and distributing facilities are locating in planned industrial areas, known as industrial parks, and CN is assisting in this trend by providing direct rail service to these developments. During 1961 a total of 708 new manufacturing plants, warehousing and distribution facilities were established in locations served by CN freight services. Of these, some 250 required direct service by private sidings.

Real Estate

In a move to realize the full potential of its real estate holdings, a broad plan to invite private investors to join with the Canadian National in the re-development of prime railway properties across Canada was announced in 1961. The plan is an extension of the principle already being followed in the re-development of mid-town locations at several CN points. The largest of these projects is the Place Ville Marie complex in the Montreal terminal area which is being carried out by Place Ville Marie Corporation. In Moncton, an agreement was entered into with private promoters to re-develop 25 acres of railway real estate into a modern transportation, commercial, business and entertainment centre. A terminal and office building for CN is an integral part of the scheme. Similar projects are being developed at Campbellton, New Brunswick, and London, Ontario, involving new CN stations and office facilities.

Marine Services

A new automobile and passenger ferry, the M.V. *Confederation*, was launched in Halifax in September. To be operated by C.N. for the Department of Transport, the ferry will serve on Northumberland Strait between Borden, P.E.I., and Cape Tormentine, N.B.

An additional vessel, the 1000-ton M.V. *Petite Forte*, was provided for the Newfoundland coastal services during the year and is being operated by CN for the Department of Transport.

The Grand Trunk Western's rail-car ferry, the M.V. *Madison*, which operates in the Lake Michigan service, was remodeled to accommodate piggy-back trailers and bi-level and tri-level automobile transporters.

On the West Coast, CN's rail-car ferry M.V. *Canora* inaugurated daily round-trip service between Tilbury Island and Vancouver Island, following completion of a new rail and ferry terminal on Tilbury Island.

CN-CP Act

Areas where co-operative measures might be undertaken were explored in discussions with the Canadian Pacific Railway Company.

Board of Directors

His fellow Directors were saddened by the death on May 2, 1961, of Mr. E. W. Bickle, who had rendered invaluable service since his appointment to the Board on October 1, 1957.

On September 30, 1961, Mr. Wilfrid Gagnon, Mr. J. A. Northey and Mr. H. W. Marsh left the Board, after having faithfully and conscientiously served thereon for 25, 22, and three years, respectively.

On October 1, 1961, there was brought into force an amendment to the Canadian National Railways Act providing for an increase from seven to 12 in the number of members of the Board. On that date the Government appointed as additional Directors and to fill the existing vacancies: Messrs. G. E. Ayers, R. A. Brown, Guy Charbonneau, W. A. Colquhoun, W. C. Koerner, J.-Louis Levesque, A. McD. McBain, H. I. Price and J. B. Sangster.

THE OUTLOOK

The 1961 financial result was a cause of deep concern to the Board of Directors and the Management. Over the past several years, despite the most resolute and intense efforts, Canadian National operations have resulted in successive and substantial annual deficits. There are, however, some hopeful signs which could lead to an opportunity for the System to bring a break-even position within its reach. It must be recognized, however, that the attainment of this objective is subject to many complex influencing factors, some within, some beyond, the control of Management. The financial outlook for the immediate future is once again over-shadowed by the implications of the wage and other demands put forward by the unions, particularly those representing the non-operating employees.

The greatest promise for the future may be found in the penetrating analysis contained in the two published volumes of the Royal Commission on Transportation. The Commission in its Report has made recommendations which envisage the kind of framework within which the various elements of the transportation industry would each most efficiently develop the country's resources in transportation and thus most effectively contribute to Canada's growth.

Canadian National, for its part, is capable of adjusting to a new environment. The System's large scale rehabilitation and modernization programs in the physical plant and administrative structure have produced a much more flexible organization aimed at offering the kind of transportation service that is best suited to public demand, both in terms of costs and efficiency.

It should be noted that the major capital program on the property which has been under way during the past decade or more has meant an extremely heavy burden of fixed charges. However, certain provisions of the Capital Revision Act of 1952 have reached the normal expiry date but have been extended temporarily pending a review of Canadian National's capital structure which is currently under way with the appropriate departments of Government.

The immediate years ahead are crucial ones for the railway industry. While the tasks facing it are imposing, the opportunities are challenging.

The Board of Directors takes pleasure in expressing its appreciation for the loyal services rendered by officers and employees throughout the System.

D. Gordon,

Signed on behalf of the Board of Directors.

Montreal, March 15, 1962.

COMPANIES INCLUDED IN THE CANADIAN NATIONAL SYSTEM

Canadian National Railway Company
Canadian National Express Company
Canadian National Hotels, Limited
Canadian National Railways (France)
Canadian National Realties, Limited
Canadian National Steamship Company, Limited
Canadian National Telegraph Company
Canadian National Transfer Company
Canadian National Transportation, Limited
The Canadian National Railways Securities Trust
The Canadian Northern Quebec Railway Company
The Central Counties Railway Company
Eastern Transport Limited
East-West Transport Ltd.
Empire Freightways Limited
The Great North Western Telegraph Company of Canada
Hoar Transport Company Limited
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Montalta Holdings Limited
Montreal and Southern Counties Railway Company
The Montreal Stock Yards Company
The Montreal Warehousing Company
Mount Royal Tunnel and Terminal Company, Limited
The Quebec and Lake St. John Railway Company
Sydney Transfer and Storage Limited
The Toronto-Peterborough Transport Company, Limited
Wacos Holdings Limited
Yellowknife Telephone Company
Central Vermont Railway, Inc.
Central Vermont Transportation Company
Duluth, Rainy Lake & Winnipeg Railway Company
Duluth, Winnipeg and Pacific Railroad Company
Duluth, Winnipeg and Pacific Railway Company
Grand Trunk-Milwaukee Car Ferry Company
Grand Trunk Western Railroad Company

In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the system.

FINANCIAL AND STATISTICAL STATEMENTS

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1961

ASSETS

Current Assets

Cash.....	\$ 25,025,136	
Accounts receivable.....	70,579,937	
Material and supplies.....	74,609,162	
Other current assets.....	14,791,326	
Government of Canada—Due on deficit account.....	18,607,772	
		\$ 203,613,333

<i>Insurance Fund</i>		15,000,000
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Investments in Affiliated Companies Not Consolidated

Trans-Canada Air Lines.....	232,671,000	
Jointly operated rail and terminal facilities.....	48,523,266	
		281,194,266

Property Investment

Road.....	2,388,557,413	
Equipment.....	1,329,020,863	
Other physical properties.....	110,760,187	
	3,828,338,463	
Less recorded depreciation.....	681,880,200	
		3,146,458,263

Other Assets and Deferred Charges

Other investments.....	3,082,002	
Prepayments.....	2,551,208	
Unamortized discount on long term debt.....	24,236,133	
Other assets.....	28,049,584	
Deferred charges.....	12,634,915	
		70,553,842
		<u>\$3,716,819,704</u>

AUDITOR'S REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

I have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1961 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1961 and of the results of its operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the System, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the System and the transactions that have come under my notice have been within the powers of the System.

J. A. de Lalanne,
Chartered Accountant.

February 28, 1962

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1961

LIABILITIES

Current Liabilities

Accounts payable.....	\$ 63,298,494	
Accrued charges.....	18,686,912	
Other current liabilities.....	2,059,406	
	<hr/>	\$ 84,044,812

<i>Provision for insurance.....</i>		15,000,000
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<i>Other Liabilities and Deferred Credits.....</i>		30,932,262
--	--	------------

Long Term Debt

Bonds.....	1,673,076,941	
Government of Canada loans and debentures.....	164,593,150	
	<hr/>	1,837,670,091

SHAREHOLDERS' EQUITY

Government of Canada

6,000,000 shares of no par value capital stock of Canadian National Railway Company.....	359,963,017	
946,807,207 shares of 4% preferred stock of Canadian National Railway Company.....	946,807,207	
Capital investment of Government of Canada in the Canadian Government Railways.....	437,903,042	
	<hr/>	1,744,673,266

<i>Capital Stock of Subsidiary Companies Owned by Public.....</i>	4,499,273	
	<hr/>	1,749,172,539
		<hr/>
		\$3,716,819,704

The notes appearing on page 32 are an integral part of this Balance Sheet.

L. J. Mills,
Comptroller

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1961

Note 1: Property Investment

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced.

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1961. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, not for extraordinary obsolescence resulting from the introduction of more efficient equipment.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2: Material and Supplies

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 3: St. Lawrence Seaway

The Company's expenditures related to the track diversion and re-arrangement of the approaches to the Victoria Jubilee Bridge necessitated by the construction of the St. Lawrence seaway are included in Other Assets pending settlement with the St. Lawrence Seaway Authority of the Company's claim including interest, amounting to \$13.5 million.

Note 4: Capital Stock

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 5: Major Commitments

(a) Pension Funds:

The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding \$325,000,000 for the outstanding liability in respect of prior service of active employees.

(b) Vacation Pay:

In accordance with past practice the Company has not recorded the liability for vacations earned in 1961 which will be paid in 1962.

(c) Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietary-tenant companies are obligated to pay, as rental, sinking fund payments sufficient to retire bonds at maturity and interest as it falls due with respect to First Collateral Trust Mortgage 4½% Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds outstanding at December 31, 1961 total \$49,414,000.

(d) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to \$2,713,000 First Mortgage 3½% 30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

CONSOLIDATED INCOME STATEMENT

	1961	1960
<i>Railway Operating Revenues</i>		
Freight.....	\$ 513,949,260	\$ 526,211,675
Switching, demurrage, etc.....	16,007,554	15,696,842
Passenger.....	34,793,498	38,323,134
Sleeping, dining and parlour car, etc.....	8,649,032	9,885,427
Mail.....	11,650,454	11,820,406
Express.....	43,256,496	44,835,020
Telecommunications.....	32,930,780	29,933,930
Other.....	21,190,099	16,434,672
Interim payments—Royal Commission on Transportation.	27,878,000	—
Total operating revenues.....	\$ 710,305,173	\$ 693,141,106
<i>Railway Operating Expenses</i>		
Road maintenance.....	\$ 166,739,542	\$ 157,098,674
Equipment maintenance.....	147,654,575	150,727,161
Sales.....	16,398,837	15,497,178
Transportation.....	311,629,593	308,700,262
Miscellaneous operations.....	6,369,685	6,299,386
General.....	53,293,780	47,471,631
Railway tax accruals.....	19,791,374	20,252,512
Equipment and joint facility rents.....	270,197	228,494
Total operating expenses.....	\$ 722,147,583	\$ 705,818,310
Net Railway Operating Loss.....	\$ 11,842,410	\$ 12,677,204

CONSOLIDATED INCOME STATEMENT—*Concluded*

	1961	1960
<i>Other Income</i>		
Miscellaneous rents.....	\$ 1,680,997	\$ 1,604,065
Income from non-rail properties.....	1,168,553	1,066,949
Hotel income.....	1,621,091	1,859,852
Dividend income.....	299,616	239,166
Interest income.....	1,490,865	1,695,224
Miscellaneous.....	749,426	261,784
Total other income.....	\$ 7,010,548	\$ 6,203,472
Deficit before Fixed Charges.....	\$ 4,831,862	\$ 6,473,732
<i>Fixed Charges</i>		
Interest on bonds.....	\$ 69,055,215	\$ 60,349,530
Interest on government loans.....	1,480,367	6,538,714
Amortization of discount on bonds.....	2,451,660	2,200,559
Total fixed charges.....	\$ 72,987,242	\$ 69,088,803
Less Interest on loans to Trans-Canada Air Lines.....	\$ 10,511,332	\$ 8,065,758
Net fixed charges.....	\$ 62,475,910	\$ 61,023,045
Deficit.....	\$ 67,307,772	\$ 67,496,777

PROPERTY INVESTMENT STATEMENT

Property Investment at December 31, 1960..... \$3,767,316,630

CAPITAL EXPENDITURES IN 1961

New lines and diversions.....	\$ 5,461,026	
Roadway improvements.....	34,999,431	
Larger terminals.....	13,340,522	
Yard tracks and sidings.....	1,728,122	
Buildings.....	13,656,850	
Highway crossing protection.....	622,120	
Signals.....	2,860,498	
Roadway and shop machinery.....	1,615,128	
Other facilities.....	3,399,458	
Telecommunication facilities.....	19,196,288	
	<u>\$ 96,879,443</u>	
Branch Lines.....	1,331,899	
Hotels.....	1,792,557	
Equipment.....	<u>11,944,946</u>	\$111,948,845

Government of Canada net expenditure on Canadian Government Railways.....	2,308,161	
Properties of companies acquired.....	3,894,722	
Additions to property in 1961.....	<u>118,151,728</u>	
Deduction in respect of property retirements in 1961.....	<u>57,129,895</u>	\$ 61,021,833
Property Investment at December 31, 1961.....		<u>\$3,828,338,463</u>

LONG TERM DEBT

Rate %	Maturity (See Note)	Currency in which payable	Transactions		
			Outstanding at Dec. 31, 1960	Year 1961 Increase or Decrease	Outstanding at Dec. 31, 1961
Bonds, Debenture Stocks and Equipment Obligations					
3½	May 19, 1961	Canadian Northern Ontario Debenture Stock.....			
3	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	3,597,518	3,597,518	26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds.....			7,999,074
2½	Feb. 1, 1963 <i>a</i>	Canadian National 8 Year 1½ Month Bonds.....	250,000,000		250,000,000
5½	Dec. 15, 1964 <i>b, i</i>	Canadian National 5 Year Bonds.....	199,000,000	11,000	198,989,000
3	Jan. 3, 1966 <i>c</i>	Canadian National 17 Year Bonds.....	35,000,000		35,000,000
2½	Jan. 2, 1967 <i>d</i>	Canadian National 20 Year Bonds.....	50,000,000		50,000,000
4½	Apr. 1, 1967 <i>i</i>	Canadian National 6½ Year Bonds.....	73,500,000	750,000	72,750,000
5	May 15, 1968 <i>i</i>	Canadian National 9 Year Bonds.....	56,400,000		56,400,000
2½	Sept. 15, 1969 <i>e</i>	Canadian National 20 Year Bonds.....	70,000,000		70,000,000
2½	Jan. 16, 1971 <i>f</i>	Canadian National 21 Year Bonds.....	40,000,000		40,000,000
5½	Dec. 15, 1971 <i>i, j</i>	Canadian National 12 Year Bonds.....		11,000	11,000
3½	Feb. 1, 1974 <i>g</i>	Canadian National 20 Year Bonds.....	200,000,000		200,000,000
2½	June 15, 1975 <i>h</i>	Canadian National 25 Year Bonds.....	6,000,000		6,000,000
5	May 15, 1977 <i>i</i>	Canadian National 18 Year Bonds.....	86,400,000	450,000	85,950,000
4	Feb. 1, 1981	Canadian National 23 Year Bonds.....	300,000,000		300,000,000
5½	Jan. 1, 1985 <i>i</i>	Canadian National 25 Year Bonds.....	99,500,000		99,500,000
5	Oct. 1, 1987 <i>i</i>	Canadian National 27 Year Bonds.....	173,250,000	1,750,000	171,500,000
4½	Sept. 15, 1979	Grand Trunk Western Note.....	400,000		400,000
5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds.....	795,366		795,366
5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds.....	1,228,399		1,228,399
5	Perpetual	Debenture Stocks—Various.....	88,972		88,972
4	Perpetual	Debenture Stocks—Various.....	8,784	8,784	8,784
2½	Jan. 15, 1961	Equipment Trust Certificates—Series "V".....	675,000	675,000	88,972
Total Bonds, Debenture Stocks and Equipment Obligations.....			1,680,308,243	7,231,302	1,673,076,941

Government of Canada Loans and Debentures

Capital Revision Act: Jan. 1, 1972 Debenture.....	Canadian	100,000,000	100,000,000
Canadian Government Railways: Advances for Working Capital.....	Canadian	16,983,762	16,983,762
Financing and Guarantee Acts: Temporary Loans.....	Canadian	31,037,938	14,533,062
Refunding Act, 1955: Loans for Debt Redemption.....	Canadian	2,038,388	2,038,388
Total Government of Canada Loans and Debentures.....		148,021,700	16,571,450
Total Long Term Debt.....		1,828,329,943	9,340,148

NOTE: *a* Callable at par on or after Feb. 1, 1961
b Exchangeable on or before June 15, 1964 for 5½% bonds due Dec. 15, 1971
c Callable at par on or after Jan. 3, 1961
d Callable at par on or after Jan. 2, 1964

e Callable at par on or after Sept. 15, 1964
f Callable at par on or after Jan. 16, 1966
g Callable at par on or after Feb. 1, 1972
h Callable on or before June 14, 1962, at 101½; thereafter at varying redemption premiums.

i Amounts of ½% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue.
j Exchanged for 5½% bonds due December 15, 1964.

SHAREHOLDERS' EQUITY

Government of Canada

No par value capital stock of Canadian National Railway Company.....	359,963,017	359,963,017
4% Preferred stock of Canadian National Railway Company.....	925,585,264	21,221,943
Capital investment in Canadian Government Railways.....	435,594,881	2,308,161
Total Government of Canada.....	1,721,143,162	23,530,104
<i>Capital Stock of Subsidiary Companies Owned by Public.....</i>	<i>4,499,284</i>	<i>11</i>
Total Shareholders' Equity.....	1,725,642,446	23,530,093

RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1960.....	\$ 627,462,210
ADD PROVISION FOR DEPRECIATION FOR THE YEAR	
Road property.....	\$ 45,579,227
Equipment.....	44,812,220
Other Physical Properties.....	2,276,397
	<u>\$ 92,667,844</u>
Recorded depreciation of companies acquired.....	2,413,533
	<u>\$ 95,081,377</u>
Deduct Charges in respect of property retire- ments.....	40,663,387
	<u>\$ 54,417,990</u>
Recorded Depreciation at December 31, 1961.....	<u>\$ 681,880,200</u>

INVESTMENTS IN JOINTLY OPERATED RAIL AND TERMINAL FACILITIES

	Percentage Held	Investment at Dec. 31, 1960	Transactions Year 1961 Increase or Decrease	Investment at Dec. 31, 1961
		\$	\$	\$
<i>The Belt Railway Company of Chicago</i>				
Capital Stock.....	7.69	240,000		240,000
Advances.....		72,344	2,168	74,512
<i>Chicago & Western Indiana Railroad Com- pany</i>				
Capital Stock.....	20	1,000,000		1,000,000
Advances.....		6,389,852	412,609	6,802,461
<i>The Detroit & Toledo Shore Line Railroad Company</i>				
Capital Stock.....	50	1,500,000		1,500,000
<i>Detroit Terminal Railroad Company</i>				
Capital Stock.....	50	1,000,000		1,000,000
<i>Northern Alberta Railways Company</i>				
Capital Stock.....	50	8,440,000	100,000	8,540,000
Bonds.....	50	16,702,500	200,000	16,902,500
Advances.....		300,000	300,000	
<i>The Public Markets, Limited</i>				
Capital Stock.....	50	575,000		575,000
<i>Railway Express Agency, Inc.</i>				
Capital Stock.....	0.6	600		600
Advances.....		173,493		173,493
<i>The Shawinigan Falls Terminal Railway Company</i>				
Capital Stock.....	50	62,500		62,500
<i>The Toronto Terminals Railway Company</i>				
Capital Stock.....	50	250,000		250,000
Bonds.....	50	11,287,200	85,000	11,202,200
Advances.....		200,015	15	200,000
Total.....		48,193,504	329,762	48,523,266

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1961

Source of Funds

Amount recoverable from Government of Canada in respect of deficit for the year (including \$48,700,000 received on account prior to December 31, 1961).....	\$ 67,307,772
Increase in long term debt.....	9,340,148
Provision for depreciation.....	92,667,844
Issue of 4% preferred stock.....	21,221,943
Other.....	22,693,401
Total.....	<u>\$213,231,108</u>

Application of Funds

Deficit for the year.....	\$ 67,307,772
Additions to property investment.....	118,151,728
Advances to Trans-Canada Air Lines.....	18,571,000
Increase in working capital.....	9,200,608
Total.....	<u>\$213,231,108</u>

INVENTORY OF RAILWAY EQUIPMENT

On Hand Dec. 31, 1961

Motive Power Equipment

Diesel Electric Units.....	2,132
Electric Locomotives.....	27
Steam Generator Units.....	108
Total.....	<u>2,267</u>

Freight Equipment

Box, Flat and Stock Cars.....	78,447
Refrigerator Cars.....	5,181
Gondola and Hopper Cars.....	23,904
Caboose and Other Cars.....	1,926
Total.....	<u>109,458</u>

Passenger Equipment

Coach Cars.....	808
Sleeping, Dining, Parlour, and Tourist.....	628
Baggage, Mail and Express.....	1,350
Other Cars in Passenger Service.....	288
Total.....	<u>3,074</u>

Work Equipment

Units in work service.....	<u>9,557</u>
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Floating Equipment

Car Ferries.....	6
Steamers.....	13
Barges, Tugs and Work.....	15
Total.....	<u>34</u>

OPERATED MILEAGE AT DECEMBER 31, 1961

	Owned	Leased	Trackage Rights	Total
<i>Operated Road Mileage—first main track</i>				
Atlantic Region.....	3,802	1	83	3,886
St. Lawrence Region (including New England Lines).....	3,786	172	15	3,973
Great Lakes Region.....	3,324		17	3,341
Prairie Region (including Duluth, Winnipeg and Pacific).....	8,148		5	8,153
Mountain Region.....	4,067	35	85	4,187
Grand Trunk Western Lines.....	879	10	58	947
Central Vermont Lines.....	315		59	374
Total.....	24,321	218	322	24,861
Lines in Canada.....	22,886	36	202	23,124
Lines in United States.....	1,435	182	120	1,737
<i>Operated Mileage—all tracks</i>				
First main track.....	24,321	218	322	24,861
All other main lines.....	1,146		82	1,228
Spurs, sidings and yard tracks.....	7,170	68	1,641	8,879
Total all tracks.....	32,637	286	2,045	34,968

PENSION TRUST FUNDS BALANCE SHEET AT DECEMBER 31, 1961

ASSETS

<i>Current Assets</i>		
Cash.....	\$ 740,248	
Accrued interest on investments.....	3,549,459	
Accounts receivable—		
Canadian National Railways—current account.....	1,398,897	
Banks, Insurance and Trust Companies re Mortgages....	233,034	\$ 5,921,638
<i>Investments</i>		
Bonds—at amortized value (Market value \$250,709,213).....	270,679,154	
Mortgages—at amortized value.....	108,304,001	
Stocks—at cost (Market value \$32,467,404).....	27,801,390	406,784,545
<i>Canadian National Railways</i>		
Acknowledged liability in respect of past service of employees.....		325,000,000
		<u>\$737,706,183</u>

LIABILITIES

<i>Current Liabilities</i>		
Refunds of employees' contributions.....		\$ 38,641
<i>Reserve for Pensions</i>		
In respect of pensions in force and pensions accruing to active employees under the 1935, 1952 and 1959 Pension Plans.....		737,667,542
		<u>\$737,706,183</u>

Note: The Reserve for Pensions includes the accumulated contributions of certain employees in service, with interest thereon, which are held in trust under the rules of the 1935 Pension Plan as follows—

Annuity Trust Fund.....	\$ 9,773,091
Supplemental Annuity Trust Fund.....	2,266,378
	<u>\$ 12,039,469</u>

L. J. Mills,
Comptroller

PENSION TRUST FUNDS STATEMENT OF RESERVE AT DECEMBER 31, 1961

Reserve at December 31, 1960.....	\$ 703,839,892
<i>Additions to Reserve during the year:</i>	
Contributions from employees on account of—	
Current service.....	\$ 15,994,662
Prior years' deficiencies.....	5,752,008
	<hr/>
	\$ 21,746,670
Less refunds on termination of service, etc.....	2,350,549
	<hr/>
	\$ 19,396,121
Contributions by the Company.....	22,609,799
Interest earned on contributions made by the Company and employees.....	17,089,758
	<hr/>
	59,095,678
	<hr/>
	\$ 762,935,570
<i>Deductions from Reserve during year:</i>	
Pensions paid.....	25,268,028
	<hr/>
Reserve at December 31, 1961.....	\$ 737,667,542

AUDITOR'S REPORT

To the Trustee,
Canadian National Railways Pension Funds.

I have examined the balance sheet of the Pension Trust Funds of the 1935, 1952 and 1959 Pension Plans of Canadian National Railways at December 31, 1961 and the statement of reserve for pensions for the year ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and related statement of reserve for pensions are properly drawn up so as to give a true and fair view of the state of the affairs of the Funds at December 31, 1961 and of the results of their operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the Funds, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the Trustee and that the transactions that have come under my notice have been within the powers of the Trustee.

J. A. deLalanne,
Chartered Accountant

February 28, 1962

ACTUARIAL CERTIFICATE

This is to certify that, on the basis of the information made available to us, the Reserve for Pensions shown in the Balance Sheet of the Pension Trust Funds of Canadian National Railways, amounting to \$737,667,542 as at December 31, 1961, in our opinion, represented adequate provision for the accumulated liabilities of the pensions then approved and in force and the pensions accrued to the above date in respect of employees then in service under the 1935, 1952 and 1959 Plans, excluding pensions granted under prior Plans.

Denis R. J. George,
Dudley Funnell,
Fellows of the Institute of Actuaries

William M. Mercer Limited
Montreal, February 23, 1962

STATISTICS OF RAIL-LINE OPERATIONS

	1961	1960	% Increase or Decrease
<i>Train Miles</i>			
Freight service.....	34,041,907	34,379,411	1.0
Passenger service.....	19,576,875	21,292,408	8.1
Work service.....	1,561,665	1,854,116	15.8
Total train miles.....	55,180,447	57,525,935	4.1
<i>Locomotive Miles</i>			
Freight service.....	34,299,804	34,668,264	1.1
Passenger service.....	17,407,808	18,889,759	7.8
Switching service—Road and Yard....	18,066,116	19,236,884	6.1
Work service.....	1,583,756	1,884,559	16.0
Total locomotive miles.....	71,357,484	74,679,466	4.4
<i>Car Miles</i>			
Freight Service:			
Loaded.....	1,092,918,197	1,096,828,191	0.4
Empty.....	664,846,763	640,637,859	3.8
Other.....	14,417,958	12,905,532	11.7
Caboose.....	34,420,941	34,694,729	0.8
Passenger—Coach and Combination	3,074,942	3,335,585	7.8
	1,809,678,801	1,788,401,896	1.2
Passenger Service:			
Coach and Combination.....	42,009,734	46,282,768	9.2
Sleeping, Parlor and Observation.	42,646,795	48,136,271	11.4
Dining.....	8,434,799	9,062,681	6.9
Motor Unit.....	3,782,495	3,913,225	3.3
Other (baggage and express, etc.).	84,810,887	88,302,987	4.0
Freight—loaded.....	2,523,331	2,637,008	4.3
Freight—empty.....	454,211	174,313	160.6
	184,662,252	198,509,253	7.0
Work Service.....	3,302,287	4,391,784	24.8
Total car miles.....	1,997,643,340	1,991,302,933	0.3
<i>Ton Miles</i>			
Gross ton miles—all services (excluding passenger cars on passenger trains).78,849,250,000		77,651,094,764	1.5
Net ton miles—all services.....	35,280,613,000	34,578,461,593	2.0
Average Miles of Road Operated.....	24,854.33	24,944.53	0.4
<i>Freight Traffic</i>			
Freight revenue.....\$	513,949,260	526,211,675	2.3
Tons carried—Revenue freight.....	76,022,886	77,688,926	2.1
Ton miles—Revenue freight.....	34,723,214,717	34,011,491,932	2.1
Ton hours in freight road service.....	1,569,482	1,663,290	5.6
Averages Per Mile of Road:			
Freight revenue.....\$	20,678	21,095	2.0
Train miles.....	1,370	1,378	0.6
Total freight train car miles.....	72,241	71,178	1.5
Ton miles—Revenue freight.....	1,397,069	1,358,680	2.8
Ton miles—All freight.....	1,419,496	1,400,758	1.3
Averages Per Loaded Car Mile:			
Freight revenue.....c	46.9	47.9	2.1
Ton miles—All freight.....	32.2	31.9	0.9

STATISTICS OF RAIL-LINE OPERATIONS—*Concluded*

	1961	1960	% Increase or Decrease
<i>Freight Traffic (Continued)</i>			
Miscellaneous Averages:			
Revenue per ton.....	\$ 6.760	6.773	0.2
Revenue per ton mile.....	¢ 1.480	1.547	4.3
Miles hauled per revenue ton.....	456.7	437.8	4.3
Cars per train—loaded.....	32.1	31.9	0.6
Cars per train—empty.....	19.5	18.6	4.8
Gross load—Freight trains (tons)....	2,313	2,260	2.3
Net load—Freight trains (tons)....	1,035	1,007	2.8
Gross ton miles per freight train hour	50,172	46,628	7.6
Train speed—Miles per hour.....	21.7	20.7	4.8
Diesel unit miles per serviceable day (excluding stored).....	208	204	2.0
<i>Passenger Traffic</i>			
Passenger revenue.....	\$ 34,793,498	38,323,134	9.2
Revenue passengers carried.....	12,104,791	13,307,901	9.0
Revenue passenger miles.....	1,075,770,694	1,208,382,297	11.0
Averages Per Mile of Road:			
Passenger revenue.....	\$ 1,400	1,536	8.9
Train miles.....	788	854	7.7
Total passenger train car miles.....	8,000	8,317	3.8
Revenue passenger miles.....	43,283	48,443	10.7
Averages Per Car Mile—Passenger:			
Passenger revenue.....	¢ 23.5	24.2	2.9
Revenue passenger miles.....	12.0	12.1	0.8
Miscellaneous Averages:			
Revenue per passenger.....	\$ 2.874	3.187	9.8
Revenue per passenger mile.....	¢ 3.234	3.171	2.0
Average passenger journey (miles)...	88.9	100.0	11.1
Percent on time arrival—principal passenger trains.....	71.4	68.1	4.8
Diesel unit miles per serviceable day (excluding stored).....	379	379	
<i>Operating Results</i>			
Total operating revenues per mile of road	\$ 28,579	27,787	2.9
Total operating expenses per mile of road	29,055	28,295	2.7
Net railway operating loss per mile of road	476	508	6.3

	1961	1960	Increase or Decrease Tons %
<i>Revenue Tonnage Carried (by classes of commodities)</i>			
Agricultural Products.....	14,402,246	13,637,537	764,709 5.6
Animals and Animal Products.....	737,974	761,707	23,733 3.1
Mine Products.....	26,624,648	28,076,013	1,451,365 5.2
Forest Products.....	8,413,443	8,772,268	358,825 4.1
Manufactured and Miscellaneous....	24,999,336	25,598,967	599,631 2.3
Total Carload Freight.....	75,177,647	76,846,492	1,668,845 2.2
All less than carload freight.....	845,239	842,434	2,805 0.3
Grand Total.....	76,022,886	77,688,926	1,666,040 2.1

A 25-YEAR SYNOPSIS OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Operating Profit or Loss	Other Income	Surplus or Deficit before Fixed Charges	Fixed Charges	Surplus or Deficit	Freight Revenue per Ton Miles	Freight Revenue per Ton	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees	Average Hourly Earnings per Employee
	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	¢	Millions	¢		\$
1937	\$198,397	\$188,888	\$ 9,509	\$ 1,415	\$ 10,924	\$ 53,270	\$ 42,346	15,165	1.014	953	1.987	84,363	.613
1938	182,242	184,375	2,133	1,271	862	53,452	54,314	14,505	.964	892	2.030	79,940	.653
1939	203,820	191,382	12,348	955	13,393	53,488	40,095	17,084	.938	875	2.035	81,672	.652
1940	247,527	211,563	35,964	376	36,340	53,305	16,965	21,532	.904	1,125	1.929	86,366	.650
1941	304,377	248,750	55,627	1,551	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362	.682
1942	375,655	300,725	74,930	1,803	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651	.730
1943	440,616	358,982	81,634	6,195	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893	.763
1944	441,147	373,492	67,725	5,776	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278	.827
1945	433,773	365,895	67,878	5,888	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591	.832
1946	400,586	369,027	31,559	6,164	37,723	46,685	8,962	30,812	.975	2,289	2.190	109,809	.898
1947	438,198	414,487	23,711	6,330	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801	.927
1948	491,270	481,094	10,176	2,633	12,809	46,342	33,533	32,943	1.195	1,755	2.368	115,395	1.064
1949	500,723	495,176	5,547	1,042	6,589	48,632	42,043	30,922	1.276	1,621	2.671	116,057	1.104
1950	553,831	513,387	40,444	3,717	44,161	47,422	3,661	31,988	1.394	1,408	2.834	116,347	1.133
1951	824,834	599,257	225,577	7,548	33,145	48,177	15,032	36,435	1.369	1,611	2.947	134,608	1.294
1952	675,219	655,725	19,494	6,063	23,557	25,415	142	38,430	1.397	1,635	2.964	131,297	1.425
1953	686,622	676,405	20,157	9,463	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109	1.525
1954	640,637	639,998	639	3,130	3,769	32,527	28,758	32,882	1.529	1,472	2.973	122,237	1.550
1955	683,089	646,378	36,711	7,011	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430	1.560
1956	774,801	728,009	46,792	11,068	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639	1.645
1957	753,166	755,214	2,048	9,447	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620	1.716
1958	704,947	719,211	14,264	9,194	6,070	46,521	51,591	35,077	1.554	1,269	3.270	113,086	1.798
1959	740,165	741,852	1,687	6,997	5,210	48,798	43,588	35,542	1.613	1,272	3.159	111,538	1.905
1960	693,141	705,818	12,677	6,203	6,474	61,023	67,497	34,011	1.547	1,208	3.171	104,155	1.945
1961	710,305	722,147	11,842	7,010	4,832	62,476	67,308	34,723	1.480	1,076	3.234	99,564	2.060

Mr. GORDON: Mr. Chairman and gentlemen, the annual report for the last year of financial record, 1961, was tabled in parliament last March. As I recall, the committee to deal with that report and the annual capital and operating budgets for this year was actually in the process of being established, but it was not possible for it to meet before dissolution of parliament. Our capital and operating budgets, however, were approved and, in accordance with past practice and authorities given, the programs of expenditures contained in the 1962 capital budget were implemented. We shall be dealing in more detail later on with the capital budget itself, but I might say in passing that at this time of the year the railway officers are engaged in a series of meetings at area, region and headquarters levels, dealing with recommendations for capital expenditures for 1963.

Mr. CHEVRIER: Are there copies of this statement the president is reading?

Mr. GORDON: This is a statement I dictated for myself. I will hand it to the reporter. There is only one copy. If anyone would like to see it afterwards, I will lay it on the table.

For the purpose of this meeting, I thought that it might be helpful if I gave a brief statement indicating some highlights of 1961 and 1962 as they affected our financial results.

The slowing down of economic activity which was evident in both the United States and Canada in 1960 continued into the first quarter of 1961. In the second quarter of 1961, however, the advance of the Canadian economy was resumed. For the rest of 1961, regardless of whether one uses the figures for gross national product (the total value of goods and services produced by residents of a country) or the data for Canadian industrial production, the economy continued to move upwards. For 1961 as a whole, the gross national product amounted to \$36.8 billion, 2.5 per cent above the previous year in value terms, and almost 2 per cent higher in terms of physical volume of output.

The rise in Canadian gross national product in 1961 was largely associated with strength in Canada's international trading position. Exports of goods and services rose to \$7.6 billion in 1961, an increase of nearly 8 per cent over the level of 1960. At the same time, imports of goods and services rose by 4 per cent. The rising volume of trade, particularly in agricultural products, had its effect on C.N.R.'s work load and revenue position. As the C.N.R. annual report for 1961 indicates, freight revenue ton miles in 1961 were 2.1 per cent greater than in 1960 while total operating revenues rose by 2.5 per cent.

It should be noted that while total operating revenues increased in 1961 over 1960, freight revenues showed a decline of \$12.3 million or 2.3 per cent and this despite the increase in revenue ton miles. Part of the explanation for this lies in the change of traffic mix in 1961 as compared with the previous year. Canadian exports of wheat were substantially higher in 1961, being about 50 per cent greater in volume terms than in the previous year. This resulted in a higher proportion of this relatively low-rated commodity in our total freight traffic movements while at the same time a fall-off occurred in the movement of a number of our highly-rated commodities. To underscore the importance of this commodity change, our total wheat carried in 1961 amounted to 6.9 million tons or 16 per cent greater than the total of the previous year.

Despite the rise in ton miles, the number of tons carried was down by about 2 per cent as compared with the previous year. The fact that ton miles rose while tons carried fell is related to the average distance we hauled our traffic since ton miles indicates the number of tons carried and the distance over which such tons were moved. Thus, in 1961 our average haul increased by over 4 per cent, and this was sufficient to lead to a ton mile increase despite

a decrease in tons carried. This increase in the average length of haul was also associated with a change in the mix of the traffic. The high level of wheat shipments played a considerable part in this for wheat movements normally have a much longer average haul than most of our other traffic.

The annual report for 1961 indicates that while our tonnages of agricultural products showed a significant increase, our carryings of animal, mine, forest and manufactured products were lower than in the previous year.

These declines may be explained to a considerable extent by a lower level of commodity output in some sectors of the economy during 1961 as compared with 1960. For example, Canadian capital expenditures for new plant and equipment which were down more than 10 per cent in 1961 resulted in a lower demand for transportation services for machinery, boilers and castings. Similarly, reduced automobile output in Canada and the U.S.A., especially during the first half of 1961, resulted in considerably lower movements of automobiles and parts on the Canadian National System. A decline in C.N.R.'s carryings of lumber and pulpwood coincided with lower 1961 output of these commodities as compared with 1960. Newsprint loadings were also down. On the other hand, a substantial increase in iron ore movements on our lines in 1961 was in accordance with increased iron ore production in Ontario. Again, expanding export markets in chemical fertilizers resulted in increased tonnages of this group.

Longer term changes in Canadian industry and competition from other transportation media also contributed to the decline in freight loadings in 1961. Coal loadings were again down substantially as consumers and industries continued to substitute other fuels for it. Our crude petroleum and gasoline tonnages were also lower due to competition from pipelines and highway transport.

With respect to the competitive situation, it is significant to note that since the end of World War II, our share of the intercity freight and passenger market has declined, although it should be said that in the case of freight our actual ton miles are running higher than they were in the immediate post-war period. In 1960 for example, CN Canadian lines produced 30.9 billion intercity freight ton miles or accounted for 24.0 per cent of the Canadian market. In 1961 CN's total for its Canadian Lines rose to 31.7 billion ton miles. These data may be compared to the post-war year 1948 when CN's Canadian lines produced 28.7 billion ton miles for 34 per cent of the total intercity freight market. In the passenger business, due to the rise in the use of aircraft and private automobiles our actual passenger miles dropped from 1.6 billion in 1948 to 1.1 billion in 1960 and to 1.0 billion in 1961.

These trends are not unique to the CN. We have maintained our share of the total freight rail market vis-a-vis the CPR and other Canadian rail lines throughout the post-war period. Again, in the United States, the railways' share of the freight market fell by 30 per cent between 1948 and 1960—the same percentage decline that we suffered during the same time period.

The above data reveal a highly competitive situation and throughout the 1961 Annual Report you will find details of the many steps taken to obtain a better share of the transportation market.

As the Annual Report for 1961 shows, the year closed with a deficit of \$67.3 million as against \$67.5 million for 1960. I want to say a word before closing about the employees and the organization itself, which deserve mention. I feel that we now have a much more flexible organization, enthusiastically pressing ahead in an earnest effort to improve the overall service and results of the System. During the past year I have travelled quite widely around the Railway, and I sense a good spirit and a ready acceptance of the challenge of

the competitive environment in which we find ourselves. This is good for the organization and good for Canada. This new effort is reflecting itself in our results, and according to our present forecasts, there is a good chance that our budgeted revenues for 1962 will be reached or even slightly exceeded, and if this is borne out then we will end the year with a deficit well within the budgeted \$48.3 million. The estimates for the 1962 operating budget, you will understand, were made on the basis of 1961 material prices, wage rates and freight rates, at a time when it was not possible to foresee or forecast the amount of additional expense which might result from various wage settlements. The 1962 result as we now see it, that is, within the budgeted \$48.3 million, will have been achieved even after absorbing an additional \$11.3 million due to pension plan changes and wage settlements and material price increases. As I mentioned earlier, we are now just in the midst of preparation of our 1963 forecast, so that it is not possible for me at this stage to give any indication of what the next year's result will be, although I remain cautiously hopeful.

The CHAIRMAN: Gentlemen, you have heard the president's general summary. Are there any questions?

Mr. FISHER: Could I ask a question on procedure, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. FISHER: Is Mr. Balcer available as a witness?

Hon. LEON BALCER (*Minister of Transport*): Yes.

Mr. FISHER: I would like to ask the minister when Mr. Gordon's engagement as president and chairman of the C.N.R. was renewed?

Mr. BALCER: Offhand, I do not remember the date.

Mr. GORDON: The expiry date is September 30, 1963, and it dates three years back from there.

Mr. FISHER: I am sorry but I did not hear your answer.

Mr. GORDON: The best way to describe it, I think—and if this does not answer your question please let me know—is that the expiry date of my appointment, as it now stands, is September 30, 1963; it was on the basis of a three-year appointment from the date it previously expired.

Mr. FISHER: Could the Minister give us an explanation as to the delay in the renewal of the appointment.

Mr. BALCER: I do not want to give any explanation on this. It is as simple as this: if you look in the statute you will see that the president remains in office until he is replaced, and the president never has been replaced. The order-in-council was not made prior to September 30, but at no time was the Canadian National Railway without a president; and Mr. Gordon remained as a director all along.

Mr. FISHER: In view of the delay in reappointing Mr. Gordon would the minister say that this might be taken as a lack of confidence in the president?

Mr. BALCER: No, Mr. Chairman, because we have reappointed him.

Mr. BENIDICKSON: Could we be advised of the date of the order in council reappointing Mr. Gordon? Although it was a three year term apparently he was carrying on ad hoc.

Mr. GORDON: Perhaps I have unintentionally misled you, Mr. Fisher. If you are referring to my appointment as president, such appointment never expired; such appointment is made by the board of directors of the Canadian National Railway subject to the approval of the governor in council. That appointment was made on a date in 1949, effective January 1, 1950. As president and chief executive officer I remain in office until I am removed by the

board of directors. Perhaps what you are referring to, if I heard you correctly, is my appointment as a director which, in due course, also meant my appointment as chairman of the board. Every member of the board is appointed for a three year term, and it is the expiry of my three year term as director which I think you have in mind. But, I want to emphasize, as president, there never was any question about my continuing in that position because that was an appointment made, as I said, by the board of directors, and is subject only to their decision.

Mr. FISHER: Could I ask the minister whether he received any requests from the Canadian National Railway board of directors to clear up this situation before the appointment of Mr. Gordon as a director or the renewal of his appointment dated back?

Mr. BALCER: I do not recall any.

Mr. FISHER: Is there any age limit pertaining to either the position of director, chairman of the board or president of the Canadian National Railway?

Mr. BALCER: No, there is no age limit.

Mr. GORDON: In any event, whatever it is, I am still within it.

Mr. FISHER: Mr. Gordon, would it be too personal to ask you your age?

Mr. GORDON: No. I was born on December 11, 1901 in Old Meldrum, Aberdeenshire, Scotland.

Mr. FISHER: I have a question which I would like to ask the minister which relates to the report we examined last year in which considerable attention was given to the MacPherson report and what it might mean for the C.N.R., and I would like to ask the minister whether he has in recent months received full representation from the C.N.R. in regard to any legislation which the government plans or may be planning arising out of the MacPherson report.

Mr. BALCER: Well, I would say yes; also, the C.N.R. officials have appeared before the MacPherson commission, and we have had full discussion with the president. When the legislation was drafted a representative of the railway was available at all times to supply our office with all the information required.

Mr. CHEVRIER: Mr. Chairman, I would like to follow up Mr. Fisher's question by ascertaining from the president what the views of the C.N.R. are with reference to the recommendations of the royal commission. The president has indicated in his report of the highlights that the freight revenue has declined during the course of 1961. The royal commission has made a series of recommendations which, taken over the years, might involve close to three quarters of a billion dollars in subsidies. I think the members of this committee would be interested in knowing what the views of the railway officials are with reference to these recommendations for subsidy in respect of the passenger field, the abandonment of lines field, the Crowsnest rates field and in respect of the other areas touched upon by the recommendations. I wonder whether we could at the outset get a general statement from the president in that respect and then perhaps we could ask questions involving some detail later?

Mr. FISHER: Mr. Chairman, perhaps I could ask a supplementary question. I have in front of me a report made I suppose by Mr. Gordon which appeared in a Peterborough newspaper not long ago in which Mr. Gordon is quoted as saying the following:

It is in this context that I call today for a renewed surge of interest in the MacPherson report, a revival of appreciation of what is involved in its basic recommendations cept(sic) of an integrated or interlocking national and for forthright expression of views that will provide the sounding board from which legislators can determine the extent of popular support for action.

I think the statements contained in this article underline the reasons why we would appreciate a general statement from Mr. Gordon along the lines indicated by Mr. Chevrier.

Mr. BALCER: At the time of the MacPherson report both the president of the C.N.R. and the president of the C.P.R. expressed their opinions in respect of the report itself.

Mr. FISHER: They may have appeared as witnesses before that commission and since have made a number of statements, but Mr. Gordon has called for a sounding board to help legislators, and we are legislators. I would like Mr. Gordon to bring us up to date as to what he feels we really should be discussing and thinking about in relation to the MacPherson report. I understand the complete report is now available and that the royal commission has wound up its business. No one answers the phone at its office in any event. I think now would be a good time for Mr. Gordon to indicate to us what it is he sees of importance in the MacPherson report that can be favourable to transportation in general and the C.N.R. in particular.

Mr. GORDON: I have made quite a number of statements, Mr. Chairman, about the royal commission report. I could spend quite a lot of time repeating them but perhaps I might direct attention to page 18 of the annual report where I have made reference to it in these words:

The greatest promise for the future may be found in the penetrating analysis contained in the two published volumes of the royal commission on transportation. The commission in its report has made recommendations which envisage the kind of framework within which the various elements of the transportation industry would each most efficiently develop the country's resources in transportation and thus most effectively contribute to Canada's growth.

That is a general statement.

In January of 1962, just after volume two of the royal commission was released, which was the volume that really made the recommendations—there is a third volume which has come out since but which is largely statistical—I issued a press release. Perhaps I should read the first part of this statement and then I will go on if you so wish.

This is a statement issued by me as chairman and president of the Canadian National Railways, and I may say it was discussed by our directors at a board meeting before it was issued.

Mr. CHEVRIER: What is the date of it, please?

Mr. GORDON: This is a press release dated January 31, 1962, and it was carried widely in the various elements of the Canadian press. In this press release I said:

The recommendations of volume II of the royal commission on transportation are an outstanding contribution to the fresh thinking that is required to adjust the balance of competition between the several modes of transportation in order to foster the continuing evolution of an efficient transportation system in Canada. The recommendations made in both volumes I and II are in harmony with the submissions and proposals made on behalf of Canadian National Railways to the royal commission.

Canadian National has long held the belief, which the royal commission has stated as its basic conviction, "that the optimum use of resources in transportation will be achieved, by and large, if each of the competing modes of transport is allowed to develop in response to the demands of the shippers for its services." Canadian National

has steadily aimed its managerial efforts in this direction and is continually modernizing its physical plant to meet competitive challenges. With necessary legislation, the reduction in regulation and in the burden of unprofitable services and branch lines recommended by the royal commission will greatly facilitate the effective use of these resources to improve railway earnings and service to the shipper.

I could go on with that statement but that is the most important part of it. Would you like me to finish this statement?

Mr. CHEVRIER: Yes, if you would, please.

Mr. GORDON: I will only take a moment to do so. It continues:

I agree with the commission that all the recommendations with regard to maximum and minimum rate control, the removal of the burden of unprofitable lines and services and the granting of related subsidies must be brought about in their entirety concurrent with the cancellation of the present rate regulations. A partial implementation of the recommendations will not solve the nation's transportation problems.

I endorse the separation of the national policy and national transportation policy. The lack of this separation may have, in the past, needlessly confused enquiries into transportation problems. The national policy recommendations dealing with the so-called "bridge", subsidies and those granted under the Maritime Freight Rates Act will require further study, particularly to ensure that the results of these recommendations do not unintentionally injure the economic well-being of the regions and shippers involved.

The observations made by the commission with regard to freedom to enter into new trucking operations are extremely important since trucking is an integral part of the competitive transportation system outlined by the commission. I feel that such freedom would be of definite value to the shippers and moreover would allow the railways to integrate their road and rail services to produce the transportation required at the lowest possible cost to the country. Thus, under genuine competitive conditions, the according of a freedom of entry to anyone willing to assume the risks and obligations, should allay the often expressed fears that the railways will monopolize the trucking industry in Canada.

The views of the commission with regard to the managerial function are ably stated in the following paragraph: "Management of rail facilities is the responsibility of the rail company, be it privately or publicly owned. Within the framework of government regulations, management must be free to manage. The responsibility must be theirs to initiate the removal of unprofitable segments of their business, to streamline their operations, to reduce costs and to initiate new facilities to meet the needs of the shipping public. No one else can do this for them and no one else should try to do so. That management must do the managing is an elementary principle, the acceptance of which we believe is vital to the achievement of an efficient rail transport system in Canada."

While I have indicated the willingness, even eagerness of the management of Canadian National to pursue the goals outlined in the commission's report, I must stress that management alone cannot bring about the desired changes. Management must have the wholehearted support and cooperation of labour, of the public and of the various

regulatory and legislative bodies. With this support I look forward to a rejuvenated railway industry which will properly fulfill its function in the transportation system of the country.

Mr. CHEVRIER: Mr. Gordon, this statement was issued ten months ago?

Mr. GORDON: Yes.

Mr. CHEVRIER: Have you or the officers of the railways had an opportunity since then to examine more closely the four main recommendations of the royal commission contained in the first volume and confirmed in the second?

Mr. GORDON: Yes. There have been discussions going on almost steadily in the form of inter-departmental committees, by our officers and the C.P.R. officers as well as civil servants in regard to the preparation, I presume, of government legislation. The government referred to these recommendations in the throne speech as you will recall. There have been discussions, not in the sense that we are pressing for policy decisions but merely in respect of providing technical information as to what would happen under given types of circumstances.

Mr. CHEVRIER: Could you give us some indication of what the discussions turned on? What was the object of the discussions with reference to these four recommendations?

Mr. BALCER: Mr. Chairman, I object to this type of question.

Mr. FISHER: Why?

Mr. BALCER: Because the preparation of legislation is and involves confidential information and operations.

Mr. CHEVRIER: I am not talking about legislation, Mr. Chairman. I have not said a word about legislation. I was simply asking the president of the C.N.R. whether he could give some indication as to what turned on the negotiations between the various members of the railways. Surely the committee is entitled to that information.

Mr. BALCER: Yes, but Mr. Gordon said that officers of the C.N.R. have met with officers of the C.P.R. and with civil servants with a view to preparing legislation. Their role has been to supply data and technical information, and so forth. If Mr. Gordon wants to answer the question, I have no objection.

Mr. CHEVRIER: I am sure he does if he is allowed to.

Mr. BALCER: But I think that this type of questioning is not proper questioning.

Mr. CHEVRIER: I think that this type of question is quite in order, and I am sure Mr. Gordon was quite prepared to answer it if the minister had not intervened.

The CHAIRMAN: We must try to stay reasonably close to the terms of reference, and it might be interesting to just read them so that we will not get away from examining the C.N.R. and start examining the government for future policy.

Mr. CHEVRIER: Mr. Chairman, just a moment, I object on a point of order. I object to your stating that we are trying to get from the government an indication as to its policy. The government is not here under examination but the officers of the Canadian National Railways are, and I think the members of this committee are entitled to find out as much information as they can get from the President of the Canadian National Railways. I submit, with deference, that that is what we should get and that there should be no intervention in that respect.

The CHAIRMAN: I quite appreciate your position, Mr. Chevrier, and I notice that you object to my point of order before I gave it. All I was saying was to avoid examining the government for future policy rather than examining the C.N.R.

The terms of reference are clearly set out and I am not trying, as chairman, to restate them.

Mr. FISHER: Please read them.

The CHAIRMAN: Yes.

That a sessional committee on railways, air lines and shipping owned and controlled by the government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways, and Trans-Canada Air Lines, saving always the powers of the committee of supply in relation to the voting of public moneys, and that the said committee be empowered to send for persons, papers and records, and to report from time to time, and that notwithstanding standing order 67 in relation to the limitation of the number of members, the said committee shall consist of 26 members.

I do not mean to say this is not all very interesting; all I was saying is that we must respect the terms of reference and not allow the committee to turn into a committee examining government policy rather than railways. I think you agree with that.

Mr. CHEVRIER: We cannot examine the accounts of the C.N.R. unless we know what its revenues are likely to be, what subsidies are likely to be payable in order to reduce these accounts, estimates and bills. In doing that, I submit with deference, that we are entitled to ask the kind of question which I asked a moment ago.

Mr. FISHER: On a point of order, Mr. Chairman. Both the 1960 and 1961 reports referred to the MacPherson commission, and included in the 1961 report are some estimates of revenue that will be coming to the railways. As a result of the recommendation in the supplementary estimates that have been before the house we have so many millions of dollars that are set aside for the recommendation. I would like to suggest that the MacPherson report and its recommendations are completely relevant to the line of questioning.

Mr. BALCER: Maybe I misunderstood your question, Mr. Chevrier. What I understand is that you are asking Mr. Gordon for the representations of the C.N.R. officials to this interdepartmental committee which was preparing legislation for the MacPherson commission.

Mr. CHEVRIER: I asked no such question.

Mr. BALCER: I withdraw my objection.

Mr. CHEVRIER: What I asked Mr. Gordon was whether he could throw some light on the negotiations which have taken place between the officers of his own department. He was about to reply when I was interrupted.

Mr. BALCER: I am sorry I misunderstood your question.

Mr. CHEVRIER: All right, Mr. Gordon.

Mr. GORDON: May I have the question again?

Mr. CHEVRIER: The question was this, apparently it was misunderstood: could you throw some light on the discussions which have taken place between the various officers of your department concerning the fields in which the recommendations of the royal commission had made its report. I referred earlier to the passenger subsidy, the abandonment of the lines, and so forth.

Mr. GORDON: I find some difficulty with that and I will tell you why and then you can point out to me how I might be of help to you. I have made

a number of public statements, statements such as I read, and a number of speeches which are all available, in which I have expressed the general viewpoint of the Canadian National management in respect of the report. As I said, there have been interdepartmental committee discussions about the MacPherson commission report, and I do not know how to disentangle those discussions from the sort of thing that you had in mind and the sort of thing that is actually privileged. As you are well aware, Mr. Chevrier, there are conversations that take place from time to time between the President of the C.N.R. and the Minister of Transport where we discuss things with the greatest frankness but always on the basis that that kind of conversation is privileged. The work which the interdepartmental committee has been doing in particular has been, I understood, with an effort to analysing the implication of various facets of given types of policies. If they were put into legislation there may have been two or three choices. Personally, I have not been present at those conversations; they were in the hands of technicians.

The only answer I can give to your question is to refer to the report of the royal commission on transportation where certain recommendations were made. If these recommendations were fully implemented—and I emphasize fully implemented—then the effect on the C.N.R., as I see it here, would be a total of about \$72.4 million after an allowance has been made for such things as the Maritime Freight Rates Act which would be partially eliminated under the full implementation of the report. This would have an impact on us of \$72.4 million in respect of our revenue account. I give that figure merely as an analysis of the royal commission report. I have no way of knowing the actual result until legislation comes forward.

MR. CHEVRIER: Mr. Gordon, I am not asking you for a report on your discussions, if you or your officers had any, with the interdepartmental committee. I did not even know that the interdepartmental committee existed, although I should have.

MR. GORDON: Perhaps I should not have mentioned it, Mr. Minister. That is also confidential.

MR. CHEVRIER: But I am interested in the discussions that have taken place between the officers of your department in connection with the recommendations of the royal commission. I therefore wonder whether you as president of the railways could not throw some light on these discussions that have taken place within your own corporation.

MR. GORDON: Not anymore than to say that—as I said in my statement—we are very much in favour of the whole package being put through by legislation. In other words, we think that any selection of portions of the commission report would be damaging and we are therefore anxious to have it dealt as a total package, and not by implementation of certain phases only.

MR. CHEVRIER: There was a portion of the package which was put into effect, was there not, by vote 590 in the last supplementary estimates?

MR. GORDON: You mean by way of preliminary payment?

MR. CHEVRIER: Yes.

MR. GORDON: I did not consider that as an implementation of the report.

MR. CHEVRIER: But the vote says so. I will read it, if you like. I have it here. But I would like to know if you would tell the committee—since thus far we have had only a general statement on the position of the Canadian National with reference to the report—I would like to know how much of that \$50 million went to the Canadian National Railways and how it was divided.

Mr. GORDON: If you will look at page four of the Annual Report you will see these subsidies spelled out in detail. In 1961, you will observe, the interim payment was \$27.9 million.

Mr. CHEVRIER: But that does not answer my question, because in the answer you now give you have the Maritime freight rate subsidies and the east-west bridge subsidy; and I refer to the \$50 million payment only which did not contain the Maritime Freight Rates Act, because it is a separate statute.

Mr. GORDON: That is right. But remember the \$50 million was for all the railways.

Mr. CHEVRIER: Yes, but I asked you how much of it went to the Canadian National Railways.

Mr. GORDON: An amount of \$27.9 million; but mind you, this did not include the subsidy under the Maritime Freight Rates Act. However, when the royal commission recommendations are dealt with, as I understand it, the Maritime Freight Rates Act payments will be partially eliminated.

Mr. CHEVRIER: How was the \$27.9 divided as between freight rate reduction and conciliation payments?

Mr. GORDON: The freight rate reduction subsidy in the amount of \$10.7 million as shown in the report is also separate. The \$27.9 million is the pure division of the Canadian National Railways share of the \$50 million in accordance with the formula which was adopted for that division, and which was spelled out in the order in council.

Mr. CHEVRIER: How much of the \$50 million went toward the payment of settlement of the dispute between the railways and the brotherhood?

Mr. GORDON: None; there was nothing tied into the wage dispute and the payment of the interim amount.

Mr. CHEVRIER: So the \$50 million interim payment in vote 590 amounted to \$27.9 for the Canadian National Railways?

Mr. GORDON: That is right.

Mr. CHEVRIER: And the difference went to pay the item mentioned on page 4?

Mr. GORDON: No, that is quite separate.

Mr. CHEVRIER: Then what did the \$27.9 million go for?

Mr. GORDON: That was our portion of the \$50 million, and it went into our income account.

Mr. CARTER: It went into general revenue?

Mr. GORDON: Into general revenue, yes.

Mr. CHEVRIER: None of it was earmarked for settlement?

Mr. R. T. VAUGHAN (*Secretary of the Company*): It was relative to the royal commission; I think Mr. Gordon mentioned that he was talking about the full implementation of the royal commission report as it was finally published, and that it was an interim payment related to it, as the estimate No. 590 indicates.

Mr. GORDON: Before we leave that, if you will be good enough to turn to page 25 you will see under railway operating revenue for the year 1961, \$27.878 million at the bottom; this is the interim payment in respect of the royal commission. This is the figure to which you have referred; it is included in our general operating revenues, and not earmarked for anything. It goes into the general revenues.

Mr. CHEVRIER: May I return to this interim payment. The interim payments were related to the recommendation—and I have reference to vote 590 of the

supplementary estimates for the fiscal year ended March 31, 1961, which was passed in the House of Commons, and which reduced the interim payment related to the recommendation of the royal commission pending its complete report. Therefore the partial payment to the companies as described in the Maritime Freight Rates Act was in the aggregate amount made in respect of the results from 1941, in the amount of \$50 million. Therefore it had to do with the freight rate reduction, yet you have just told me no.

Mr. GORDON: No. The freight rate reduction was a separate matter altogether. It arose in the year 1959.

Mr. CHEVRIER: Yes.

Mr. GORDON: It arose out of the fact that the railways had been granted a 17 per cent increase in general freight rates covering at that time—recognizing at that time—the wage increase. But the Government decided that it did not want that 17 per cent increase to go into effect. They therefore rolled back the increase. The increase had been granted, but it had not gone into effect.

As I say, the government then rolled back the increase, and undertook to pay the railways for the difference which was then estimated. You will come to that in the freight rate section; and the amount, as you will see there, in 1961, was \$10.7 million. That is a completely separate and distinct matter from the royal commission; and as it stands now, for the year 1962, we expect that the freight rate reduction payments will be made.

Mr. CHEVRIER: How have you been operating under the Freight Rates Reduction Act since payment under the legislation expired on April 30, 1962?

Mr. GORDON: We have an agreement with the government that we would not increase the freight rates. We were legally entitled to do so at that time, but the understanding with the government was to bring in legislation to renew the Freight Rates Reduction Act.

Mr. CHEVRIER: You have been paying?

Mr. GORDON: Yes Sir.

Mr. CHEVRIER: Notwithstanding the fact that the statute has not been renewed, even though it has expired.

Mr. GORDON: Yes, but we are depending—that is, the railways, particularly the Canadian Pacific and ourselves—upon legislation being passed, we hope, this year, which will give us payment as from April 30, because we have given shippers the benefit of those reduced rates.

Mr. BALZER: I might remind Mr. Chevrier that this legislation is on the order paper, and it was also mentioned in the throne speech.

Mr. CHEVRIER: I am aware of that, although it should have been done 7 to 8 months ago.

Mr. GORDON: We are fortified in our belief that legislation will be passed because it said so in the throne speech; and also that the other subsidies, will be provided for by appropriation.

Mr. CHEVRIER: When you have a minority government, you should not be fortified in that position.

Mr. FISHER: Your deficit in 1961, if this interim payment did not come through relative to the royal commission, would have been another \$95 million.

Mr. GORDON: That is right; it would have been \$27.9 million more.

Mr. FISHER: First of all, do I take it from your remarks that you approve—when you say you approve of the package—of the abolition of the bridge subsidy?

Mr. GORDON: I said in my statement that we take the report as written in total.

Mr. FISHER: You also said—and you also indicated at some time—that it would be possible that some of these reductions, if implemented, would cause hardship.

In the region which I represent there is some concern on the part of the local people, who are interested in transportation, and who are very worried about this abolition, or proposed abolition of the freight subsidy. Has your railway any idea how the bridge subsidy can be ameliorated or how the effect of the bridge subsidy can be ameliorated?

Mr. GORDON: No, I would not care to get into that. We gave it in our evidence before the royal commission on transportation, and I would have to look it up, because it was quite a lengthy matter. But the end result was that after we were through with our submission to the royal commission, we accepted their recommendation.

Mr. FISHER: Do you agree with the recommendation of the commission that no more branch lines should be built in this country unless it can be proven that they are economically justifiable?

Mr. GORDON: If that is what the commission said, then I am in agreement with it; but at the moment I do not recall the actual wording.

Mr. FISHER: You agree with this generally?

Mr. GORDON: I agree generally with that statement, yes.

Mr. FISHER: This will be relevant later on in our discussion and I will bring it up at that time. There is one other point which is a very general one. Mr. Gordon, in the statement which you read you emphasized national transportation developing by the competing modes of transportation. Competing modes is a favourite wording of the commissioners. Is it fair to say that the Canadian National Railways is represented in all the competing modes of transportation?

Mr. GORDON: No. We do not run passenger automobiles, and that is the biggest item of all in regard to passenger traffic.

Mr. FISHER: But, in so far as movement—

Mr. GORDON: I will put it this way. In every mode of transport that we can see as being feasible to use for the purpose of handling traffic and to give our shippers service, and in respect of which we can make some money, certainly we will use anything.

Mr. FISHER: Do you see any conflict at all between the transportation policy that emphasizes competition and the role that you play in providing a public service in an area which is not now and likely never will be on a competing basis.

Mr. GORDON: I do not see anything wrong with that. The commission says quite definitely—and I am speaking from memory—that the railways will not be and should not be expected in the future to provide any services which would mean that they lose money on it; but they go on to say that if there is any, whatever the service may be which the board of transport commissioners finds on examination is required in the public interest, then that service should be continued by the railways and should be paid for by supplementary subsidies. So, the commission is perfectly consistent in saying that the railways should not provide any transportation that loses money. I repeat that if a particular service is regarded as being in the public interest, then the commission says flatly that the railways should be compensated for their losses.

Mr. FISHER: Let us take one very delicate question of service about which there has been much argument, and that is whether or not it is compensatory. There have been arguments over just what compensatory means. Take the Crowsnest pass rates; is it not fair to say that the assumption from the royal commission recommendation would be that we would need some continuing body or agency, such as the board of transport commissioners, to define what the loss is, or the difference between the cost and the compensation that is received.

Mr. GORDON: That is a matter of mechanics and technique. I quite agree it would appear that way, but I do not want to be in a position of appearing to instruct the board of transport commissioners how to do its job. I would think, however, as a matter of common sense, if the recommendations are implemented as advised by the royal commission, that there would have to be a method of establishing the difference between the cost and the actual rate if the rate is continued.

Mr. FISHER: And you think it is practicable as a solution that in this whole area of shipping we can come to sort of a continuing means of determining the difference between the cost of dividing the service and the actual repayment of it.

Mr. GORDON: Yes, depending on the circumstances, if the item is big enough. The Crowsnest pass rate is a very good example where the segment of traffic is large enough to make a costing of it perfectly feasible. That was demonstrated during the royal commission hearings because we established a formula there which was accepted. But if you then start in and argue from that you can take each legitimate traffic and individual package and proceed to cost that exactly, then I think you would get into trouble. We can do it if the traffic is large enough.

Mr. FISHER: In effect you must have, and I take it your directors must have, an idea of the kind and range of services which you provide in Canada and which you can never hope to actually even meet expenses on let alone make a profit.

Mr. GORDON: Never is a long time. I would not go that far. I think there are certain segments of traffic in which there is great difficulty and segments on which we are losing right now, and in respect of which we will be steadily taking action to try to improve our earning capacity.

Mr. FISHER: Let us turn to another aspect of this competition. The main competitive field in so far as movement of goods is concerned, aside from passengers, has been the trucking industry. I think that is a fair assumption, is it not?

Mr. GORDON: No, I do not think it is a fair assumption.

Mr. FISHER: Let us say that it is one of the largest.

Mr. GORDON: Well, perhaps if we are going to comment on trucking, I suppose we may as well do it now. I do not mind saying at once that there is a deliberately distorted perspective about the importance of trucks vis-a-vis the railway business. If you look at our figures of traffic in 1961, our total revenue is \$710 million plus some \$7 million from other income. I doubt very much if our gross revenue from trucking is more than roughly \$20 or \$22 million. It is "peanuts" compared with our main business. This thing has been exaggerated and distorted by interested parties to the point of putting the wrong perspective on it. The trucking in railway business, if I can estimate it, would be about 5 per cent of the total. The MacPherson commission itself pointed out that there is no reason why the trucking industry should be fear-

ful of that, nor under the terms of direct competition is there any reason for the trucking industry to be afraid of the railways in any shape or form unless of course the railways can give a more efficient service.

Mr. FISHER: Let us turn to the advantages you would have as a railway in an integrated operation including trucking. It seems obvious to me—and you can correct me if I am wrong—with the capital and resources you have in terms of staff and your whole marketing set-up that you have great advantages over the trucking competitors even though it is only 5 per cent of the traffic.

Mr. GORDON: No. I completely disagree with that.

Mr. FOY: Might I ask a question?

Mr. FISHER: I have put a question.

The CHAIRMAN: Mr. Foy.

Mr. FOY: It is related to this. In respect of this \$20 million of business that you stated that the railways have acquired through trucking company business, could you give us a breakdown of the operation of that as to how much net profit was made through acquiring trucking industries?

Mr. GORDON: If you turn to page 10, and particularly page 12 of the report, you will see that we have dealt with highway services.

The CHAIRMAN: Pardon me for interrupting but I am wondering, without restricting any questioning or discussion, whether it might be better if we were to follow the procedure we followed last year and proceed paragraph by paragraph in the report. Mr. Gregoire has been waiting to ask a question. We have been dealing in generalities. As you recall, last year we followed the same course and found that we had gone far afield.

Mr. FOY: If Mr. Gordon would answer my question, then we might carry on in the way in which you suggest.

The CHAIRMAN: I do not want to interrupt you, but when you have finished we will take the paragraphs in turn.

Mr. FISHER: I am agreeable, but this related to the MacPherson royal commission recommendations, and we have before us one of the greatest supporters of the MacPherson report.

The CHAIRMAN: Go ahead then Mr. Gordon and answer Mr. Foy's question.

Mr. GORDON: When Mr. Fisher asked me the question he did, the complete reply was, "I completely disagree with him," but in order to convince you I have to go into quite a lot of detail. I do not know whether or not this is the time to do it. I would rather leave it until we deal with trucking.

I believe that Mr. Foy's question is answered at page 12, on which page we have given a breakdown and show the net results. I would ask you to refer to the paragraph beginning "During the year..." on page 12. That paragraph gives a summary of our operations and, if I understand the remarks of the chairman correctly, I would suggest you leave that then until we are on the general discussion of trucking and at that time you could bring your question up again, if what is stated in that paragraph does not meet your point.

Mr. FOY: In other words, this \$131,000 is the net profit of your trucking industry.

Mr. GORDON: It is the net profit of all our trucking operations.

Mr. FOY: And that is the first year of operations, is it not?

Mr. GORDON: You see, you have to read the next paragraph to get the whole flavour of it. I would suggest you read that section of the report and then you will be in a better position to ask a question later on, if need be.

The CHAIRMAN: Would it be satisfactory if we commenced at the first of the report and asked questions as we go along? In this way better order would be kept. However, Mr. Gregoire had a question.

Mr. GREGOIRE: Mr. Chairman, I was interested in the point raised by Mr. Fisher, and I have two questions on preliminaries to ask Mr. Gordon.

When will the negotiations between the employees of the brotherhood union and the C.N.R. commence in connection with the next contract?

Mr. GORDON: Negotiations have already commenced. If you will recall, we received a unanimous conciliation board report and the understanding was that the negotiations affecting the rearrangement of seniority, and agreement in regard to the payment out of the fund for severance pay and that sort of thing, would immediately start with a committee between the railway and the unions. The master agreement has been settled, and it provides that commencing January 1, 1963, if agreement at the committee level had not been reached, then a fund would commence to accumulate at the rate of one cent an hour and the committee would still continue their efforts to arrive at an agreement in respect of these points I have mentioned and others. And it went on to say that if after six months—that is, by July 1 1963,—an agreement had not been worked out, then there would be arbitration.

Mr. GREGOIRE: Are these negotiations between the C.N.R. and the unions of railroad men—that is international unions—

Mr. GORDON: If I may interrupt, I am talking about the non-operating union.

Mr. GREGOIRE: I am talking about the brotherhood union of railroad workers.

Mr. GORDON: Do you mean the engineers?

Mr. GREGOIRE: No.

Mr. CARTER: Are you referring to the operating employees?

Mr. GREGOIRE: (French)

Mr. CHEVRIER: Is it the international union with which you are doing business?

Mr. GREGOIRE: I will explain it to you and then, perhaps, you will understand.

Since last June we have received perhaps 4,000 or 5,000 letters from members of the brotherhood union of railroad employees and they have asked us to see if they could form their own Canadian union instead of the brotherhood union of railroad employees when the next negotiations commenced. Have you heard about that?

Mr. GORDON: We would not be involved in that as it is a jurisdictional matter between the unions themselves.

Mr. GREGOIRE: Would you be interested in considering consulting with the employees before negotiations.

Mr. GORDON: No. We have no place in that. The men themselves must determine which union they wish to represent them and then they have that union certified. We do not try on any account to persuade any group of men to belong to any particular union as that is a matter of free choice.

Mr. GREGOIRE: But if the employees themselves want to change unions, what then?

Mr. GORDON: Then they speak to the unions.

Mr. GREGOIRE: Was there any effort in that direction expended at the signing of the last contract.

Mr. GORDON: No, not to my knowledge. At least there was not on behalf of management because we do not take any part in it.

Mr. GREGOIRE: You say there were no talks between you and any other union.

Mr. GORDON: No. Let me make this clear. Management must not and cannot try to influence men in regard to the particular union which they seek to represent them; that is entirely a matter of free choice, and when they decide what union they want to represent them they take a vote, I presume, and they arrive at a conclusion, following which they go to the labour board and get certification. But we take no part whatsoever in it.

Mr. GREGOIRE: But if the majority of the employees would like to change unions and if they found it difficult because of the start of negotiations between their actual union and the C.N.R., would the C.N.R. favour a vote between the employees and, thereby, leave them with a free choice.

Mr. GORDON: It is entirely up to the employees themselves, any group of employees or any man who thinks he can form a union, to try to obtain votes from the members of that craft or trade and if he gets sufficient support he then goes to the labour board and asks for certification.

Mr. GREGOIRE: Have you received any letters from members of the brotherhood union in this connection.

Mr. FISHER: Mr. Chairman, if I may interrupt, could I ask Mr. Gregoire to be more specific. Mr. Gordon, are there not some forty unions with which you deal?

Mr. GORDON: Yes. We have 178 individual agreements.

Mr. GREGOIRE: The union to which I refer is the international brotherhood union of railroad men of America, and we have received perhaps 4,000 or 5,000 letters from these employees requesting our help in order that they may form their own Canadian union in respect of the next negotiations.

Mr. FISHER: I do not recognize that union, and, because it is a very serious matter I would like Mr. Gregoire to identify the group.

Mr. CARTER: I do not think that is Mr. Gregoire's point. As I understand him, he is saying that the employees of the C.N.R. would like to dissociate themselves from the international union and have a purely Canadian union but they find themselves handicapped in doing that because of the negotiations between management and the international union.

Mr. GREGOIRE: Yes, but not in connection with all the unions of the C.N.R.; one specific one which, I think, has 50,000 employees.

Mr. RIDEOUT: I am a member of one of these unions.

The CHAIRMAN: Mr. Rideout states that he is a member of one of these unions.

Mr. RIDEOUT: Yes, and we have nothing to do with that. As the president says, you have to apply for certification through the government.

Mr. GREGOIRE: But my point is that at the time the last contract was entered into they tried to have their own Canadian union and they were not able to have this.

Mr. RIDEOUT: Well, you tell your people to have a referendum and then, if successful, make a proper application.

Mr. FISHER: If I might interrupt, the largest union the C.N.R. deals with is a purely Canadian union, The Canadian Brotherhood of Railway and General Transport Workers. There are many international unions, The Brotherhood of Locomotive Engineers, The Brotherhood of Firemen, The Brotherhood of Railway Trainmen—

Mr. GREGOIRE: That is the one.

Mr. FISHER: Well, if it is, that union does not have anywhere near a 50,000 membership.

Mr. GORDON: No, no.

Mr. FISHER: Would it be in the neighbourhood of 5,000 or 7,000?

Mr. GORDON: It would be of that order; say between 7,000 and 10,000.

Mr. FISHER: Then, if you have that many letters from them, there is a mistake somewhere.

Mr. GREGOIRE: I am in a position to show you all those letters, and I am sure you would be surprised. They all request that at the time of the next negotiations they be given an opportunity to form their own Canadian union.

If you like, Mr. Gordon, I will send you references and details in that connection.

Mr. GORDON: They are of no interest to me. You tell your correspondents that if they want to change their union there is a proper way to do it through union procedure. If they are able to find sufficient interested members they can then apply for certification of that union—but, not to management; we have nothing to do with it. It is the same procedure that is used when some people get in their heads the idea they would like a change of government and they go out and vote on it.

Mr. FISHER: If you like, you can tell them to get in touch with Mr. Bernard Wilson, Secretary of the Canadian Labour Relations Board in Mr. Starr's department, and he can advise you in this connection.

Mr. RIDEOUT: Reverting to the original discussion on the maritime freight rates—

Mr. GREGOIRE: I had another point I wanted to mention, and it is in connection with the first page of the report. I note we have one president, seventeen vice-presidents and ten directors, and none of them is French Canadian.

Mr. GORDON: How do you know?

Mr. GREGOIRE: Then, which ones are?

Mr. GORDON: I want to find out from you who is a French Canadian.

Mr. GREGOIRE: Could you name for me the ones who are.

Mr. GORDON: I do not know how to define a French Canadian. But I will say this: these are all Canadians, everyone of them.

Mr. GREGOIRE: They are not names of French speaking Canadians.

Mr. GORDON: There are some French speaking Canadians on the board of directors.

Mr. FOY: Mr. J. Louis Levesque is on the board of directors.

Mr. GORDON: There are several members who can speak French, if that is what you want to know.

Mr. GREGOIRE: We do not wish to impose upon you and have all French speaking Canadians on the board of directors but we feel entitled to have some French speaking Canadians named thereto.

Mr. GORDON: Let me say quite clearly that the promotion policy of the Canadian National Railways has always been based upon promotion by merit. The man who, by reason of experience, knowledge, judgment, education or for any other reason, is considered by the management to be the best person fitted for a job will receive the promotion, and we do not care whether he is black, white, red or French. Even Scotsmen receive promotion in the C.N.R. We never ask questions of that kind in regard to promotion or employment,

and I think if we did we would be following a practice against the Canadian Fair Employment Practices Act which, by law, tells us that we must not discriminate because of race, national origin, colour, religion or age.

Mr. GREGOIRE: Mr. Gordon, you perhaps do not wish to take language into consideration, but if some consideration were given in this regard perhaps we would not see the situation develop in Quebec which we now see there on occasion, with the result that on lines between Montreal and Chicoutimi or Montreal and Quebec individuals riding on the train cannot understand what the trainmen say.

I should like to ask you another question. Were you not able to find any French speaking Canadians qualified to be named to the board of directors as listed on the first page of the annual report?

Mr. GORDON: That is not a correct statement.

The CHAIRMAN: Mr. Guy Charbonneau and Mr. J. Louis Levesque are named on that list of board of directors.

Mr. GREGOIRE: Yes, but board of directors in French would be "direction" or "selection".

Mr. GORDON: I repeat that we do not attempt in C.N.R. practice to break down types of Canadians. Our employment opportunities are open to all Canadians, and our promotional policy is based on the fact that promotions are made regardless, as I quoted the Canadian Fair Employment Practices Act, of race, national origin, colour, religion or age. That requirement is set out in an act of this country. It is part of the law of this land and we carry it out.

Mr. GREGOIRE: Does it follow from what you have said that there were no French speaking Canadians qualified to hold these positions or there were no French speaking Canadians who made application for these positions?

Mr. GORDON: We have officers and employees who are able to speak French in all positions where there is such a requirement in order to serve the public. I think our record in that respect is better than most organizations in this country.

In regard to making promotions of any kind in this group that you have referred to, there are men who speak French. You cannot judge by name whether a man speaks French or otherwise. I am aware of a number of names of French speaking Canadians which do not appear to me to be French names at all.

Mr. FISHER: A good example of that is the name "O'Hurley".

Mr. GORDON: Perhaps the name "Fisher" is a French name for all I know.

The CHAIRMAN: Even the minister can speak French.

Mr. GREGOIRE: Could you give us some detail concerning those individuals named on this list of board of directors who are bilingual?

Mr. GORDON: You are referring to them being bilingual in what respect?

Mr. CHEVRIER: Mr. Chairman, I fully agree with what Mr. Gregoire has said as one looks at this page. I say with all due respect to the president of the C.N.R., and I have known him for a long time, he is not prejudiced in the slightest degree. Having said that, I think it is a misnomer to put an annual report before the parliament of Canada including this list of names indicating that you have not been able to find one qualified individual in the province of Quebec. That situation is not understandable. It is all right to say that there are no discriminatory practices and so forth and so on, but an organization such as the Canadian National Railways ought to be able to find people who are able to fulfill these positions, and who are French speaking. You have had no difficulty in this regard in respect of the board of directors, one of whom is

J. Louis Levesque, one of the most outstanding French Canadian businessmen in Canada. You apparently had no difficulty in naming him to the board of directors, and I cannot commend management enough for that appointment, but surely similar appointments are possible in other fields.

Mr. GORDON: Mr. Chevrier, may I say this? We are speaking of a group of men as listed here, all of whom have arrived at these positions on the railway, if you are referring to railway men, as the result of 20 or 30 years' experience. This may be the result of a policy of 20 or 30 years ago which produced these men but not a policy for which I am responsible today. We have done more for the cause of the French language in the C.N.R. than any other organization in Canada.

Mr. CHEVRIER: You cannot make me believe that in an organization such as the Canadian National Railways there are no men of the standing and level of those who are listed on the second page of the annual report who are French speaking who could fill these positions. I do not want to be unfair or unjust, but it seems to me to be a misnomer for an organization such as the C.N.R., to say that there are no French speaking Canadians of that calibre. I do not believe such a statement.

Mr. GORDON: Mr. Chevrier, let me say this. What you really are asking for is discrimination.

Mr. CHEVRIER: I am not asking for discrimination at all.

Mr. GORDON: Yes, you are.

Mr. CHEVRIER: It may be that I could give you names, Mr. Gordon, but I will not give them publicly, who fit this category.

Mr. GORDON: I would be glad to have them, I assure you.

Mr. CHEVRIER: Just a moment, I will give you these names afterwards, names of people who, in my opinion and in the opinion of many people in the province of Quebec, should have obtained promotion because of their knowledge and because of their experience in the C.N.R., but who were not given promotions.

Mr. GORDON: I can assure you of this, and I want to make this statement clear. In respect of these promotions, and particularly during our recent re-organization, there was not one of these appointments made before we had combed every possible analysis that we could devise to make certain that the man who got the position was the best qualified. There was no discrimination in that respect. The fact that you do not recognize a French speaking Canadian's name in that group has nothing whatever to do with the choice. I deny emphatically on behalf of management that there has been any discrimination in this regard and say to you that we have a completely non-discriminatory policy, and that we have chosen the men who were qualified.

Mr. CHEVRIER: I accept your denial but say that for nine years I have heard the same explanation that you are giving this committee now by your predecessor and by others. However, I repeat what I said earlier, that in so far as you personally are concerned there is not the slightest prejudice involved. I know that to be true, but there is something wrong some place. I only ask those of you in connection with this who are operating the railway to give this matter a little more serious consideration.

Mr. GORDON: We cannot give it more serious consideration than we have given it.

Mr. CHEVRIER: You will not do anything about it then?

Mr. GORDON: I can give you part of the reason for the difficulty that you have referred to. I could give you chapter and verse, but I will ask you to accept my word for this, in respect of French speaking Canadians who could

have filled certain positions but who refused to accept promotion because they did not want to leave the province of Quebec, or because they did not want to leave the city of Quebec or Montreal, as the case may be. If we are going to educate our officers and make them qualified they must be willing to go anywhere in Canada in the course of their training. This situation gives rise to one stumbling block.

I could give you chapter and verse of a French speaking Canadian, a gentleman that you know very well, who I was on the verge of appointing as vice president, but who went to what he thought was a better job in the province of Quebec.

Another difficulty involved is that these French speaking Canadians who are qualified are under premium demand today.

Mr. CHEVRIER: I will be glad to discuss that particular case with you at any time.

Mr. GORDON: I could give you the man's name.

Mr. CHEVRIER: I know the name and I am very familiar with the circumstances, but they are not as clear as you have stated.

Mr. GORDON: Let me say this to you. I will stick my neck out this far; when I come back here ten years from now you will find that some of the men we have employed in the last two or three years will be occupying some of the positions to which you refer. We have recruited a great number of French speaking Canadians from universities, for example, in an effort to solve this problem. We have employed many individuals in this category, and this policy is working very well. It will be some time before we see the results of this policy, but in a few years I am sure you will see a change. That is why I say to you when you ask me to give serious consideration to this, and I hope you will accept my word, that it has had most serious consideration.

Mr. PUGH: Mr. Gordon, you said in answer to questions in this regard, "We—", and I should like to know whether you mean by that the board of directors?

Mr. GORDON: I had reference to the management of the C.N.R. which includes the board of directors, yes.

Mr. PUGH: In regard to this discussion I note that you have listed on the board of directors Mr. Levesque and Mr. Charbonneau.

Mr. BALCER: Mr. Ayers is French speaking also.

Mr. GORDON: A lot of these promotions are made on my personal recommendation. They come up to me from the regional officers, and they come through to me as chief executive officer of the railways. I bring them before the board of directors and they hear all there is to be said about it.

Mr. PUGH: On all senior appointments?

Mr. GORDON: Yes.

Mr. ROULEAU: You mean to say that in your own judgment there are no French speaking Canadians with the proper qualities and the capacity to become officers of the company? You have not been able to find French speaking Canadians in the province of Quebec who in your own judgment would have the capacity to be appointed as officers in a country like ours?

Mr. GREGOIRE: How can you explain that, when we have a Minister of Transport who is a French speaking Canadian, you cannot find other French speaking Canadians having enough merit to be members on the board of directors of the Canadian National Railways?

Mr. GORDON: Both of you are distorting what I have said. I am saying that we are not discriminating in connection with our promotions. Of course, we have a number of senior officers, for example the general manager of the St.

Lawrence region whom you could call a French Canadian, and in terms of selecting these particular positions to be filled when they become vacant, for example, this man who was appointed had a better entitlement to the job in terms of ability, qualifications and experience which goes into making a judgment. Everyone on the railway who had a right to be considered for that job was duly considered and eventually we made a choice. However, we did not make a choice because the man was an English speaking Canadian or a French speaking Canadian or anything else, only that he was a Canadian. Each one of these men was selected as being best qualified at the particular time the appointment was made. I do not want to say for a moment that we have not able French Canadians in our service, particularly in the province of Quebec—of course we have.

Mr. GREGOIRE: But not enough to find one, or a couple of them or six, to put on the board of directors?

Mr. GORDON: Let me say this—perhaps I was speaking indiscreetly, I manage to talk myself into an indiscretion now and again—as far as I am personally concerned and as long as I am president of the C.N.R., there is not going to be a promotion or an appointment made just because a man is a French Canadian. He has got to be a French Canadian plus other things, and he has to be as able as the other fellow who has a claim on the job. There is going to be fair practice on the C.N.R. as long as I am there. What you are arguing for is discrimination.

Mr. GREGOIRE: Do you intend to say there are no able French Canadians in the province of Quebec, who are as able as the officers you have appointed?

Mr. GORDON: That is a distortion of what I said. When one of these jobs become vacant, if any of them dropped dead tomorrow—which God forbid—when the management sits down to consider it, anyone in the railways who has the qualifications, experience, education or anything else, will be considered for it. If he happens to be what you call a French Canadian, he will get it.

Mr. GREGOIRE: But you were not able to find anyone in the past years.

Mr. GORDON: At the time these appointments were made, I repeat, the best man was chosen.

Mr. ROULEAU: Would it not be possible to make a special effort to find a qualified French speaking Canadian for the job?

Mr. GORDON: You are asking me to discriminate.

Mr. ROULEAU: It is only fair.

Mr. GREGOIRE: Mr. Gordon, they were found less able in your judgment, is that right?

Mr. GORDON: Let me say that the man chosen for the job was the best person available at the time.

Mr. GREGOIRE: In your own judgment?

Mr. GORDON: In the judgment of myself and my advisors and in the judgment of the people who worked with him and who made the recommendations. I do not run a one-man show. By the time we make that appointment I have probably received ten or twelve different appraisals. We have a staff folder giving the man's record. All these things are examined over the years to see where the man fits best.

Mr. GREGOIRE: Was the judgment that led you to find those people more able than any French speaking Canadian the same as the one you used to name the C.N.R. hotel which we all know of despite the protestations of all the people in Montreal?

Mr. FISHER: I think these questions are not to the point. Maybe Mr. Gordon could tell us what are the inhibiting factors at the present time that seem to keep the people who might be called French Canadian—I do not know how you define that—away from these positions? Mr. Gordon has mentioned the past, but I would like to know the facts. Is it because the C.N.R. conducts all its business in English?

Mr. GORDON: I do not think so. We do not conduct all our business in English. Our train operating rules are written in English for the simple reason that there can only be one language when you are dealing with issuing such rules, just as it is in the army. If you are issuing orders, you must have one language which everybody realizes means the same thing or you will get into dangerous difficulties on the question of interpretation. There can be no question about that. But if you ask me to make a general statement, I will say this, that the C.N.R.—or indeed the railways of Canada—have not apparently been regarded as an employment field where we have been able to attract the brighter men of French Canada, and we have not had the men. Over the past ten years we have gone at this thing very definitely. I started it myself, and I can claim credit for it—although I am sure I will not get it—that we started examining right away to see how we could improve the content, so to speak, of our staff to get French Canadians with ability and education. As a result of this, for instance, in 1961—Mr. Vaughan just called my attention to it—out of 42 university graduates whom we took on our staff from all across Canada, there were 11 who were from Laval or Montreal university. That is 25 per cent. We got those by going after them. In due course those men will feed in other people from French Canada, if we do not lose them. I found from experience—and I would point this out to Mr. Chevrier in particular—that when we do find a French Canadian and we develop him and he begins to stick his head up and begins to be recognized, we lose him.

Mr. FISHER: What about the prospect of bringing French Canadians in who have experience outside, bringing them in on an executive level in your organization?

Mr. GORDON: We would do that if there was a need for it, but I do not think it is fair to prejudice the existing employees in the C.N.R. who have made it their life's work by bringing in men over their heads if we do not need them. We have however brought some in.

Mr. CHEVRIER: You have done that in one or two cases.

Mr. FISHER: Because of special circumstances and whenever these special circumstances may obtain, they will get special consideration.

Mr. GREGOIRE: What was your experience with the C.N.R. before you were nominated as president?

Mr. GORDON: I never worked in the C.N.R.

Mr. GREGOIRE: When you came to the C.N.R. was it in prejudice to the people there?

Mr. GORDON: That would have to be answered by the people who appointed me.

Mr. GREGOIRE: You have said something about the rules of the C.N.R. being in English so as to avoid misunderstanding. Do you mean that the laws of the government of Canada, which are in both languages, can bring about misunderstanding between Canadian citizens and the judges.

Mr. GORDON: I would not want to comment on that. I am not enough in the courts. But it seems to me there is plenty of confusion in the laws of Canada. When you give an order to a man, whether it be in the army or the railway, that order must be precise, and mean one thing. We only know there is no time to translate when there is danger.

Mr. GREGOIRE: Do you think there would be danger in translating the rules of the Canadian National Railways?

Mr. GORDON: Yes, very definitely.

Mr. GREGOIRE: Do you think it would be more dangerous than to translate the laws of the government of Canada?

Mr. GORDON: Yes, very definitely, and quite obviously, because there are differences in translation. You have asked me for an opinion, while you give your own.

Mr. FISHER: I would like Mr. Gordon to have an opportunity to answer the question.

Mr. GORDON: Let me illustrate it by giving you a little story covering my own initial experience with bilingualism. Before I entered the railway, I was in the Bank of Canada, and we found it necessary to demolish an old building in order to build the Bank of Canada. In my innocence, I awarded the tender to the lowest tenderer, who happened to be a French speaking contractor, named Lajeunesse. I do not know if he is yet around. But there was a terrible row in the city of Ottawa. Why would we give the contract to a French speaking contractor when there were plenty of English speaking ones here?

I called the contractor in and said to him: "Surely it ought to be possible to employ some men who are English speaking Canadians? Why do you have to take all French speaking Canadians, mostly from Hull, to do the job?"

The contractor said: "This is dangerous work."

I said, surely you can get English speaking Canadians to do dangerous work?

He said: "That is not the point, that building is 5 or 6 stories high, and there is a big steel beam up there. Let us say there are 2 employees on it, and that beam is about to fall. The foreman yells 'jump!' There is no time to translate." It is exactly the same thing with the railway.

Mr. GREGOIRE: Do you often have to jump out of your trains?

The CHAIRMAN: He might have to. It seems to me that we are on the first page of the report.

Mr. GREGOIRE: On a question of privilege, the rules of the Canadian National Railways are all in English.

Mr. GORDON: I am not talking about the rules generally for employees. Certainly we publish our general rules in English and in French. We have page after page of them. I am talking about the train operating rules, the running rules which cover the movement of trains, the physical movement of trains, the running orders affecting the movement of trains. That is a very small segment.

There is an authorized operating rule book which is common to all railways in Canada as well as on the North American continent; it is the same with the United States, and it is agreed on between all the railways, so that a certain thing means the same thing on every railway. Those are orders; those are running rules.

The other rules are all our information to staff and everything that we publish, such as our management bulletins, and everything that we put out for the information of staff, and this we send out in French and English. I have a long list of things which we do in this regard.

Mr. GREGOIRE: I thought we were speaking of the rules of the Canadian National Railways, and that this would have been the reason why French Canadians are not more fully engaged in the administration.

Mr. GORDON: No; it is a different thing altogether.

Mr. FISHER: We have had it expressed here in the way of some fairly strong opinions that it would be advantageous in many ways if we did have some French Canadians in executive positions with the Canadian National Railways. If I understood your reply, your policy is that you will not discriminate either for or against, and that your appointments are made on the basis of merit and ability.

Mr. GORDON: That is right.

Mr. FISHER: Assuming that that is a fair policy and that you are continuing it, you are still seeking to bring into your executive force people with French Canadian background.

Mr. GORDON: We are looking for them and are anxious to get them.

Mr. RIDEOUT: I hope that when Mr. Gordon is choosing people from the universities for future high positions in the railways he will not forget St. Joseph's University.

Mr. GORDON: You can't win!

Mr. CHEVRIER: May I now refer to the report?

The CHAIRMAN: We have discussed the \$27 million item. If there is anything more on it, let us start with that.

Mr. RIDEOUT: On the Maritime Freight Rates Act there will be a loss of between \$10 million and \$11 million.

Mr. GORDON: Without payment under the Freight Rates Reduction Act.

Mr. RIDEOUT: That will be abolished.

Mr. GORDON: If the MacPherson commission report is adopted, I understand it will be absorbed in other payments.

Mr. RIDEOUT: Where would this be picked up? Would the maritimes suffer because of it?

Mr. GORDON: No, not according to my understanding of the report.

Mr. CHEVRIER: I would like to return to this whole question.

Mr. GORDON: There would be some segments where the interim rate might be affected.

Mr. CHEVRIER: You answered a question asked by Mr. Fisher a little while ago about the rail subsidy across northern Ontario. I wish to ask you a question about that first of all and then carry on with the maritime freight rates payments. The bridge subsidy was recommended by the Turgeon royal commission, and it is a payment of about \$7 million divided between the Canadian National and the Canadian Pacific. If that disappears, that is a \$7 million loss which the two railways will suffer across the northern part of Ontario. Where will they reimburse themselves? Will there have to be an increase in the freight rates?

Mr. GORDON: It would depend; it would be open to the railways to determine whether or not an increase is wise. We would have to determine that in the light of our competitive position.

Mr. CHEVRIER: It stands to reason that if you take \$7 million off northern Ontario, and \$10 million off the maritimes end, you must reimburse the railways with an increase in freight rates, or I do not know what other alternative there would be. Would there be a subsidy?

Mr. GORDON: It depends on what the recommendation is with respect to subsidy payments mentioned by the MacPherson royal commission.

Mr. CHEVRIER: You know what the recommendations are.

Mr. GORDON: Yes, but I do not know what will be implemented.

Mr. FISHER: Would it not just change from one subsidy to another?

Mr. GORDON: That is a general question. I am under this handicap, that I do not know what the result is going to be. All I know is what the report recommends. Mr. Balcer would know about the recommendations.

Mr. CHEVRIER: If these four recommendations are put into effect, then what effect would the implementation of those four recommendations have, if you withdraw from northern Ontario and the maritimes under those two subsidies?

Mr. GORDON: Again, I cannot answer that because there are several different ways within the legislation to do the implementing and still keep within the report. It would depend on the method followed. If, as you suggest, the subsidies are just withdrawn, then at the moment they are withdrawn, I would assume—and again I am speaking subject to the legislation—that the railways would then be free to determine what adjustment they should make in the freight rates. We would be free within the impact of competition because these rates have now become so embedded, and the Freight Rates Reduction Act has become so embedded, that I doubt personally that if we should suddenly increase them, we could hold the traffic. I do not know if we could.

Mr. FISHER: What would happen to the maritime freight rate structure if you withdrew the subsidy and the competition remained as between trucks and railways to central Canada? How then is the position of the maritimes bettered by the implementation of the recommendations of the royal commission, with withdrawal of the Maritime Freight Rates Act?

Mr. GORDON: You would have to read the whole implication of the report. That is why I said this morning that it is very important not to pick out several segments. You have to take the whole report and the answer of the whole report, as I see it. The idea of the whole report is to bring about the most effective and efficient way to get our transportation system in this country working for the benefit of the shipper, but not necessarily for the benefit of the railways. In that case I would let competition be the arbiter in the market place, and by removing all these artificialities then let freight rates be quoted on the basis of what will give the best service to the shipper and what mode of transport is the best to use; then the shipper must be able to get the lowest, fastest and most efficient service. It is within that complex that I must answer this question.

Mr. CHEVRIER: Take, for instance, the freight rates reduction and the recommendation in the report that it be abolished, and suppose it is abolished during the course of 1963, then where will you get the revenue of \$10.7 million that you had in 1961?

Mr. GORDON: I do not know. It will depend on the market; it will depend on the amount of subsidy that is finally implemented in the legislation. Again I am being drawn into things such as I am really not qualified to touch on, but it is possible that the government in its legislation may decide that it is not wise to do this in one fell sweep; they may say let us have a five year period—I do not know. I cannot answer this question until I see the legislation. Mr. Balcer would tell me very politely to mind my own business. I cannot give you the immediate impact until I see the legislation.

Mr. CHEVRIER: If and when this Freight Rates Reduction Act is abolished will the railways then make an application for an increase in freight rates?

Mr. GORDON: Not necessarily, no. It will depend on the circumstances and the circumstances largely will be the effect of the competition.

Mr. CHEVRIER: Also the amount of the subsidy that you will receive from the government if legislation is implemented.

Mr. GORDON: Yes.

Mr. PUGH: I believe you said there would be an increase in revenue of \$72 million under this package deal. Therefore, you must have gone into all the elements in order to produce that figure. Had you taken out any subsidy there?

Mr. GORDON: Well, it is a mishmash of a lot of things. If you look at page 4 you will see \$66.7 million in subsidies received by us in 1961. That includes \$27,900,000 which was sort of an advance payment of a global form based on the fact that the MacPherson commission report had not been implemented. If and when the report of the royal commission is implemented, there are certain of those subsidies which will still remain such as, for instance, the Newfoundland and P.E.I. Steamship subsidies. I presume that will remain because it is separate from anything else. So that my total estimate of the subsidies that would then become payable after full implementation of the royal commission report would be in the order of \$72.4 million as compared to \$66 million. If the legislation wipes out the Maritime Freight Rates Act, it would be absorbed somewhere in the package of the amount of the subsidy that the legislation will recommend.

Mr. CHEVRIER: Does it not look as if it is substituting one subsidy for another if the recommendation is implemented?

Mr. GORDON: There is a subsidy recommended that will take place in regard to the losses that the railways have alleged, and then we have the problem of the Crowsnest pass movements.

Mr. FISHER: That was outside the terms of reference of the commission.

Mr. GORDON: No.

Mr. CHEVRIER: Yes.

Mr. GORDON: Wait a minute. It was outside the terms of the commission to recommend and put in the rate. Nothing in what I am saying affects the changing of the rate of the Crowsnest pass. What the commission said is that if the railways are affected owing to anything in the public interest which will cost them money, then the railways should not be asked to pay for the loss, and it should be paid out of the public purse. To the extent we are able to demonstrate that we are carrying wheat at a loss, then here is a subsidy mentioned, which incidentally is a declining subsidy over the years, but nevertheless is a part of the package.

Mr. CHEVRIER: Mr. Fisher's point was that the terms of reference did not include a study of the Crowsnest pass rates.

Mr. FISHER: This was a case where the commission out-flanked the Prime Minister.

Mr. GORDON: I am certainly not going to give an opinion as to what the terms of reference meant. All I know is that the last item said "such other related matters as the commission considers pertinent or relevant to the general scope of the inquiry".

Mr. RIDEOUT: In connection with the steamship service to P.E.I., is the railway involved in the survey in respect of the causeway.

Mr. FISHER: Could we leave that until it comes up in the report. I wanted to ask a question relating to the maritime freight rates situation.

The CHAIRMAN: It is on this page.

Mr. FISHER: Are we still not on page 1, the financial review?

Mr. SMALLWOOD: We are over to page 4.

The CHAIRMAN: Operating revenues.

Mr. FISHER: I wanted to ask Mr. Gordon in respect of the maritime freight rates situation roughly what percentage of the traffic the C.N.R. now holds—not passenger, but freight.

Mr. GORDON: I would have to get my file on that.

Mr. VAUGHAN: The C.P.R. runs into Saint John. The C.N.R. runs from Moncton down to Sydney where the C.N.R. is the exclusive rail carrier. Smith

Transport runs into the Maritimes as well. Of course if what you want is the percentage paid under the Maritime Freight Rates Act, then that can be obtained.

Mr. FISHER: The Maritime Freight Rates Act particularly is relevant to the Canadian National Railways more so than other carriers.

Mr. VAUGHAN: Not exclusively.

Mr. GORDON: It would have more of an impact.

Mr. FISHER: There is another question I would like to ask in order to follow that up. Did the C.N.R. make any recommendation to the MacPherson royal commission regarding abolition of that particular subsidy?

Mr. GORDON: Frankly I do not remember. We will look that up for you. I do not recall at the moment whether or not it was under discussion.

Mr. CARTER: The Maritime Freight Rates Act does not apply to freight that is brought in from other countries and landed at maritime ports.

Mr. GORDON: This will cover both of your points. The rail freight reduction applies to (1) local traffic between points within the territory; (2) on export (rail-sea) traffic originating on the territory destined through ocean ports on the territory and (3) on westbound traffic destined to points in Canada beyond the limits of the territory (the rate reduction is applicable to Levis or Diamond Junction only).

The territory includes the lines of railway situated within the provinces of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland, and the lines in the province of Quebec extending from the southern boundary near Matapedia and near Courcheane to Diamond Junction and Levis. That is the territory, and that is where the tariffs apply.

Mr. FISHER: Mr. Gordon, last year you told us that you had made an approach to the government in regard to certain dead items that are carried in the books of the C.N.R. and which constitute a very large sum. I note that there is nothing in the financial review about this proposal so, I assume, that so far you have had no response from the government.

Mr. GORDON: We made a comment in the Annual Report, and it is on the last page, starting at the last paragraph on page 19, and it reads as follows:

However, certain provisions of the Capital Revision Act of 1952 have reached the normal expiry date but have been extended temporarily pending a review of Canadian National's capital structure which is currently underway with the appropriate departments of government.

It is in the hands of these departments at the present time.

Mr. FISHER: When did you file it?

Mr. GORDON: We were in the process of filing it all year but we finally had a formal and agreed submission on it.

Mr. CHEVRIER: Is this on recapitalization?

Mr. GORDON: Yes this is recapitalization. Although there were other documents filed, October 10 is when we filed the final one. The formal presentation was on October 10.

Mr. FISHER: Of 1962?

Mr. GORDON: Yes.

Mr. FISHER: Why did it take so long to prepare this.

Mr. GORDON: Because it meant a detailed study of every item of property in the railway to determine whether or not the depreciation approach to it was adequate or justifiable at the particular time it was done. That necessitated an evaluation approach in connection with every one of the items. Am I not right in this connection, Mr. Toole?

Mr. J. L. TOOLE (*Vice President, Accounting and Financing*): Yes.

Mr. GORDON: Mr. Toole was largely in charge of this. Broadly speaking, it was a terrific accounting job not only to make the required examination in respect of existing property items but, as well, property items in the past.

Mr. FISHER: Was that an interim figure you gave us last year.

Mr. GORDON: It was a completely indiscreet figure which I never should have mentioned; however, you talked me into it.

Mr. FISHER: Could I ask you whether the figure has been revised upwards or downwards.

Mr. GORDON: Now that I have made a submission I think I have to regard it as privileged.

Mr. FISHER: I am very interested in the size of this.

Mr. GORDON: Well, I gave you a figure last year which was based on a very, very preliminary examination and which I would not like to have on the record at all—and the figure which we have now placed in this connection is a complex of a great number of items and I think it would be misleading to the committee for me to pick any item out of the air without a full presentation on it. Mr. Balcer is here and, if he wishes to release the report, it is up to him.

Mr. BALCER: I do not think we are in a position to release it.

Mr. FISHER: Mr. Balcer, what is your intention this year in respect of the introduction of a new act relating to the capital structure of the C.N.R.?

Mr. BALCER: The submission of the C.N.R. was presented to the Minister of Finance and if and when this matter is brought before the House it would be brought by the Minister of Finance. To date it is not on the order paper and it was not mentioned in the speech from the throne.

Mr. BENIDICKSON: Not long ago there was a substantial write-off by statute with respect to the capital of the C.N.R.; in what year was that?

Mr. GORDON: 1952.

Mr. BENIDICKSON: How much was involved in the write-off at that time?

Mr. GORDON: It was not a write-off; it was a transfer from fixed debt into 4 per cent preferred stock at that time.

Mr. BENIDICKSON: In gross dollars what was involved?

Mr. GORDON: About \$750 million for the transfer.

Mr. FISHER: What I am interested in Mr. Chairman, is this representation to the Minister of Finance. If it is successful it will have, I assume, a tremendous effect or consequence upon your balance sheet for the next year.

Mr. GORDON: Yes, it will and, as I have said all along, it will enable us to place a proper picture before the Canadian public of the results of our current operations. For that reason I regard it as very, very important in terms of employee morale. It will result in an appreciation of the job the workers on the railway are doing instead of having the dead hands of the past in the shadow of bookkeeping of bygone years constantly demonstrated in our current earnings. I am very anxious to see the whole situation clearly set forth for the benefit of the public of Canada by producing a result which would indicate our current operations.

Mr. FISHER: Can you give us any indication, if your proposals were accepted, what effect it would have on the deficit you are projecting for 1962?

Mr. GORDON: That is another way of asking me how much is the amount mentioned.

Mr. FISHER: No, it is not.

Mr. GORDON: My point is this, Mr. Fisher: I am perfectly sure that if and when the government intends to implement legislation, our recommendations will be laid before the same committee or before the house on a basis that you will all have an understanding of and an opportunity to examine them—and I am not putting words in the minister's mouth; I am sure that is the case.

Mr. FISHER: But last year you gave us a presentation of a comparison between the C.N.R. and the C.P.R. which was very worthwhile and relative. You have told us today this would have a great effect upon employees morale, and I agree. But, will it give you a surplus?

Mr. GORDON: I will put it this way: if we get recapitalization on the basis we have proposed and if the MacPherson report is implemented in the scope we have mentioned, and if we are able to straighten out our present difficulties which we have today with L.C.L., express traffic and trucking, then I can say with confidence the C.N.R. will show a profit, depending of course on the level of business and so forth. However, if we were going to have a major depression that would have to be qualified.

Mr. FISHER: Did you not make a projection at the time of the last capital revision that there were profits in sight.

Mr. GORDON: I made a projection which, if you will recall, was very carefully qualified. Perhaps I should get the exact wording of this. In this regard I said:

My statement is, of course, essentially a matter of judgment but our appraisal was based on our experience of the past and it assumes the same order of relativity between freight rates on the one hand and wages and prices on the other.

That has not taken place.

Mr. FISHER: When was that statement made?

Mr. GORDON: This was made in June of 1952, and I believe it was before the Senate committee. It was in answer to a question by Mr. Roebuck and is reported on page 13 of Senate Hansard dated Friday, June 20th, 1952.

Mr. FISHER: I have one more question relating to this matter of previous projections.

What would you say are the substantial reasons why your projection did not materialize, which resulted in the necessity for a further proposal for recapitalization?

Mr. GORDON: I think I would have to go back to the statement I made last year because you asked the same question last year and I gave you a very detailed reply.

Mr. CHEVRIER: Did you not say that this recapitalization in 1952 was only a portion of what was required by the C.N.R.?

Mr. GORDON: Yes, and when we got down to cases we said we were trying to examine the situation on the basis of what had happened since then. We did not do too badly until 1956?

Mr. CHEVRIER: I should like to ask you a question in regard to your reference to the action in 1952 in answer to Mr. Benidickson. You said that was not a wiping out of debt, but a transfer to the securities trust.

Mr. BENIDICKSON: With a loss of interest there?

Mr. CHEVRIER: That action involved this transfer from the national debt to the securities trust on the accounts of the C.N.R.

Mr. GORDON: That action relieved us of interest charges in the form of fixed charges of roughly between \$23 millions to \$25 millions per annum.

Mr. CHEVRIER: You are no better off, if you look at the report for 1961, in so far as fixed charges are concerned today than you were then?

Mr. GORDON: That is right.

Mr. CHEVRIER: Your fixed charges have increased?

Mr. GORDON: That is right, and that is due to a complete rehabilitation of the railway both in regard to the technical change which arose largely in respect of dieselization, and for many other reasons, plus the fact that when we settled down to a close examination of what these changes meant, we then came to the realization that our depreciation account was grossly inadequate in terms of the new equipment that was being put into service. That is the real basis of our submission now for recapitalization, plus some other factors.

Mr. CHEVRIER: I then ask you in connection with the new submission, without going into the manner in which the submission has been made, whether you can answer this question. Will this be a transfer of the same nature to the securities trust which you are asking for, or will it be a complete wipe-off of a certain amount of the capital expenditures?

Mr. GORDON: It will involve neither one of those suggestions but I do not know how to express it. We have made our proposals on the basis of recognizing the inadequacy of the depreciation account. That affects the proprietor's equity, but it is a very complicated bookkeeping transaction that would be involved, although it will not cost any money in the sense that it would transfer the obligation from our books to the books of the government.

Mr. CHEVRIER: Mr. Chairman, I wonder if I might be allowed to move into another aspect here?

The CHAIRMAN: You will still be dealing with operating expenses?

Mr. CHEVRIER: Yes.

The CHAIRMAN: I should like to keep these discussions in order.

Mr. CHEVRIER: Yes. You are familiar, as you said a moment ago, with the recommendations of the royal commission which recommended subsidies for 1961 for the two railways to the extent of \$97,300,000 of which, I think you said, \$72.3 million would go to the C.N.R.?

Mr. GORDON: That is the way it looks, yes.

Mr. CHEVRIER: Under the item in respect of passenger services, Canadian National Railways, it sets forth \$40 million?

Mr. GORDON: Yes.

Mr. CHEVRIER: How do you propose to reduce passenger services in exchange for the subsidy?

Mr. GORDON: We have to demonstrate to the Board of Transport Commissioners that the specific lines in respect of which we are claiming a subsidy are in fact deficit producers. We are now busily engaged, as you probably know, in making recommendations in terms of abandonment of services on branch lines. I think it is important to make it clear that our recommendations for abandonments do not necessarily mean that all the lines we are referring to will in fact be abandoned. The board of transport commissioners will have to sit in judgment on them. If those commissioners find, as I am sure they will, in some cases that there is a good case in the public interest for the continuation of a specific branch line passenger service, then under the terms of the commission's report, if it is implemented, we are entitled to the difference between our revenue and our deficit paid out of this \$40 million. That will run off over a period of time as we are able to abandon the lines which are not in the public interest.

Mr. CHEVRIER: How much of the subsidy recommended by the royal commission report, in respect of the 8,600 miles of line, affects the C.N.R. and how much the C.P.R.?

Mr. GORDON: You are talking about branch lines to the extent of 8,600 miles?

Mr. CHEVRIER: Yes, because you have taken my question into that field.

Mr. GORDON: I may have to look this up, but I think it is about 4,500 miles in respect of the C.N.R.

Mr. CHEVRIER: What you are saying now is that the C.N.R. intends to apply to the board of transport commissioners to withdraw their service for that mileage?

Mr. GORDON: Let us be clear on this point. We present applications to the board of transport commissioners for the abandonment of certain lines in order to establish the deficits in connection with the particular lines that we are putting forward. We may have 100 of them and perhaps more. In fact, I think we have slightly more than 100 applications.

Mr. CHEVRIER: Do you intend to do this in respect of the 4,500 miles?

Mr. GORDON: Yes, we are doing that in connection with the branch lines that are in play.

The board of transport commissioners will recognize that there may be a period of time during which these abandonments should take place. They will go along with our requests in some cases and they may well rule that the time of action is not now and ask us to wait another five years. They may rule in some cases that we should go ahead, or they may indicate that they are not prepared to deal with some applications. However, in regard to those applications in respect of which they instruct us to continue to supply service they are obligated to pay a subsidy under their own recommendations, providing the government implements them.

Included in these requests for abandonments there will also be lines of a different type, in respect of which the commission will agree with us, and this will mean that there will be a declining amount of subsidy as we get the whole situation under control.

Mr. BENIDICKSON: Mr. Chairman, I wonder whether the officials of the C.N.R. during the noon recess could prepare for the committee a table showing the amount of capital injected each year since the change in capitalization in 1952, up to the present time and, alongside of that, give an indication of the profit and loss of the railways for the past ten years?

Mr. GORDON: That is already in the annual report, sir.

Mr. BENIDICKSON: I am concerned about this matter, whether it has regard for morale or otherwise. That is, you have written off again a very substantial sum of money that has been provided for this crown company. The sum of \$750 million was transferred from an interest bearing category, which would have relationship to a deficit because it did bear interest. That was written off in 1952, and there is some suggestion that we are going to write an amount off again. I wonder whether the president this afternoon would perhaps look over the last ten year period of injection of new capital for such things as dieselization, C.T.C., the very expensive freight sheds with automatic freight handling systems which have been provided at Winnipeg, Toronto, Montreal, Moncton and so on, so as to be in a position to assure those of us in the House of Commons that these things have really paid off, having regard to an obligation to pay something in respect of the capital that was invested?

Mr. GORDON: Mr. Benidickson, I should like to make two comments. Firstly, the amount of capital expenditure has been shown in each annual report that

we have presented to this committee. There is no secrecy about the amount of capital, so to speak, that has been spent, or in regard to what it has been spent for.

The second point I should like to advance to this committee, with great respect, is this. I do not think it is fair that this committee or any member of it should express opinions about a proposed recapitalization plan until they have seen it.

Mr. BENIDICKSON: Right, I agree.

Mr. GORDON: During last year the committee expressed fear and alarm in respect of the figures that I mentioned although they had no detail or understanding, and no opportunity of understanding in connection with what was proposed. I do not think we should try to deal in this committee with something which is not before it. As I said before, and Mr. Balcer has confirmed my statement, if a recapitalization plan is implemented by legislation, as I hope it will be, naturally there will be ample opportunity for all members of the House of Commons to see the plan in detail and to have it discussed and explained. It cannot be done in terms of generalities.

Finally, I want to emphasize this point; the sole purpose of the recapitalization and other things we have been discussing is to put the Canadian National Railways on a basis where the public of Canada will have an opportunity of judging it on its merits in terms of its current operations.

Mr. BENIDICKSON: That is what you said in 1952.

Mr. GORDON: I do not think so. I do not think I said that in 1952. If anyone does not want to see this recapitalization take place, they are really expressing a hostility to the welfare of the Canadian National employees, because there is no one thing that makes it more difficult for management to work with employees in terms of morale and in trying to stir up pride in the organization which is so essential to management, than the fact of continuing deficits. Our presentation is going to be a perfectly straightforward argument that the figures in the balance sheet of the C.N.R. should logically and properly be amended to wipe out the past. Instead of it being wiped out when it should have been, we will do it now and start with the basis that we should be able to stand on our own feet. If we get what we have outlined—the recapitalization and the MacPherson commission report—I have every confidence, and I say this without qualification, that the C.N.R. will be able to stand on its own feet and show a profit.

Mr. ADDISON: I would like to ask one question, Mr. Gordon, in relation to these fixed charges. If you look on page 27 of the report showing the total government of Canada loans and debentures, you will see the figure of \$164 million which is approximately a tenth, and on page 25 the interest on bonds is \$69 million and the interest on government loans is \$1,480,000, which is not in the same proportion. What I would like to ask is whether the Canadian government is subsidizing the C.N.R., other than the subsidy that is voted by parliament?

Mr. GORDON: No.

Mr. ADDISON: What is the differentiation?

Mr. GORDON: We pay the interest on all these bonds that are outstanding; they are in the hands of the public. What was the figure you had in mind?

Mr. ADDISON: The ratio is one-tenth as far as liability is concerned.

Mr. GORDON: They have not got it right here. What figure are you talking about?

Mr. ADDISON: \$164 million on page 27.

Mr. GORDON: I see what you mean. You are talking about total government of Canada loans and debentures.

Mr. ADDISON: \$164 million.

Mr. GORDON: That is right. Those were temporary advances. Those advances are turned into bonds that are sold to the public in due course. They will be included in the grand total as soon as we float the issue.

Mr. ADDISON: Is the C.N.R. not borrowing money from the government at a lower rate?

Mr. GORDON: No. The way it works is that if we need money in terms of our capital budget, we will borrow it from the government just as if we were borrowing it from the bank until such time as the government and ourselves agree that the market is ready for the C.N.R. issue. Then we go to the public market, we sell the C.N.R. issue which is guaranteed by the government as you know, and that will then move up to the debt structure and wipe out the government advances. The government advances are purely banking advances made temporarily as a matter of convenience until we are ready to go to the public and sell bonds.

Mr. ADDISON: I understood that in some instances the C.N.R. was receiving funds through the sale of government of Canada bonds.

Mr. GORDON: No.

Mr. BENIDICKSON: On temporary advances.

Mr. GORDON: On temporary advances, yes.

Mr. BADANAI: On page 26 there is property investment and also capital expenditures.

The CHAIRMAN: Could we keep the items in order, try and follow them in sequence if you do not mind?

Mr. BADANAI: I want to ask where we can find expenditures on automatic yards.

Mr. GORDON: It is under one of these headings. Do you see the heading "capital expenditures in 1961"? These are broken down, and as a matter of fact I will come to that later on when I come to the budget. One of them would be "large terminals", or yard tracks and sidings. It would depend on where it shows.

Mr. BADANAI: That is \$1,700,000?

Mr. GORDON: What we spent in 1961 was a total of \$13,300,000 on our large terminals.

Mr. BADANAI: I understand that the automatic yards in Toronto alone cost in excess of \$100 million.

Mr. GORDON: This only shows the portion we spent during 1961.

Mr. BENIDICKSON: But you agreed to give the committee a ten-year review of capital expenditures after recess.

Mr. FISHER: Mr. Benidickson asked for that.

Mr. BENIDICKSON: You said it was in the report but we have figures here only for 1961.

The CHAIRMAN: Is it the wish of this committee to rise at 12:30? I understand it is. Mr. Rideout was trying to ask a question.

Mr. BADANAI: I am not finished.

The CHAIRMAN: We will meet at 3 o'clock or at an earlier moment after the Orders of the Day.

Mr. FISHER: I would like to give notice of a line of questioning. I do not want to ask the questions now, but I just want to give notice that I want to

take up with Mr. Gordon the employment statistics produced in part VI of Railway Transport by D.B.S. with the comparison in terms of the management figures in the first category between the C.N.R. and the C.P.R. between 1958 and 1961.

Mr. RIDEOUT: I move we adjourn until after Orders of the Day.

Mr. GREGOIRE: I would like to ask a question concerning profitable and unprofitable lines. I would like to put those questions to one of Mr. Gordon's advisors at our meeting after Orders of the Day.

The CHAIRMAN: We are meeting tonight in the Senate room 356S at 8 o'clock. We will meet here immediately following the Orders of the Day.

AFTERNOON SITTING

TUESDAY, November 20, 1962.

The CHAIRMAN: Gentlemen, we now have a quorum. Might I suggest—although it is certainly not for any suppression of witnesses or questions—that we might probably create a little more order in our procedure if we took up the report item by item. We have had considerable discussion on the financial review, operating revenues, operating expenditures, and so forth. I think if it is satisfactory we might move on now to “system” so that we would not be going over the whole report again and referring to pages beyond that. If we deal with the matter item by item,—I think we did it that way last year—I believe we would make progress.

Mr. FISHER: Mr. Chairman, I thought the discussion this morning in relation to the capital revision was in order, since it did relate to the financial review.

The CHAIRMAN: There are capital expenditures, too. But before you proceed, may I obtain the opinion of the committee in that regard: that we proceed in that way and try to follow each item. Is that satisfactory, gentlemen? Agreed.

Mr. CHEVRIER: We are still on the financial review.

The CHAIRMAN: Yes.

Mr. CHEVRIER: I have some questions.

Mr. FISHER: When replying to Mr. Benidickson this morning, Mr. Gordon expressed some concern about this matter being gone into in any detail. I took from it that he was warning members of parliament off any preliminary opinion on the matter until they had seen revealed the sort of full basis of the Canadian National Railways approach. I want to raise with Mr. Gordon the difficulty that members of parliament face in regard to a proposition like this.

I have already been approached by one of the railway unions, Mr. Chairman, with regard to this proposition: that we should support it, that I and my party should support it, and that is a very good idea; in other words, when the union deals with the Canadian National Railways it is going along with Mr. Gordon's proposition. But we are faced with the fact that the Canadian National Railways have had two capital revisions in the past.

In order to understand what the union is talking about you have to go back and look at the record. In the light of the record, that is, upon going back to the capital revisions, we have had at least two situations where the future in so far as the capital structure of the Canadian National Railways was concerned seemed to have been cleared up. Mr. Gordon will remember that the Turgeon report indicated that if the capital revision which it recommended had been carried out, it would clear things up for the future so that the Canadian National Railways could operate.

Now we have a third capital revision proposed. This puts us in a very difficult position in judging it. As Mr. Gordon remarked this morning, we were referring back to the provisions and the revisions of the situation that exists at this time.

I would like to have a statement from Mr. Gordon about this whole matter: that is the whole matter of the capital revision that he is putting before the Minister of Finance, and in regard to the urgency or the supreme necessity for it, in terms of what he talked about, such as employee morale, and in terms of the kind of balance sheet that he hopes to present.

Mr. GORDON: Well, it should be remembered that the 1952 capital revision contained in it certain elements which expired in about 10 years; and it is a fact that these provisions have expired, and they now give rise to the question of what manner they should be renewed, if they are renewed at all, or, whether or not there should be a new look at the whole situation in terms of current events.

Now, when the 1952 capital revision went in, there were a number of reasons which were given for 10 years being used, always with the intention that in 10 years' time we might have a new look. It is the experience of those who have been using that legislation on a temporary basis which gives rise to our proposal to take a new look at the whole capitalization structure of the railways. In the light of events since that time, our re-capitalization proposal has now been prepared, after a great deal of discussion with departmental officials, largely for the purpose of establishing the figures which we are going to put into our submission.

Discussions with the officials were, of course, touching on the whole question itself also. But we were anxious to have an agreement with the financial officials as to the actual figures with which we were dealing. That is what has taken the time. Accountants have been having quite a hassle to establish what those figures should be.

Generally speaking, my understanding is that the officials of the railway and the officials of the Department of Transport and of the Department of Finance are now in agreement as to the facts, and in agreement as to what the figures are. Then we proceeded from that to make our proposals to Government as to the kind of re-capitalization that should take place at this time, bearing in mind the expiring items as well as the new presentation we want to make, arising particularly out of what I mentioned last year, and the new look in regard to depreciation.

I said last year that the amount of depreciation charged in the books of the Canadian National Railways has been relatively far, far less than you would find traceable in the accounts of the Canadian Pacific.

And a new factor which also came into being since the 1952 capital revision was that in the light of the Turgeon report there was an agreement reached on what they called uniform classification of accounts: that uniform classification of accounts would not become effective until 1956. There were four years of hard work by the experts to arrive at a uniform classification, and that uniform classification has now gone in. So, we are now talking about the same things from the standpoint of accounts in the Canadian Pacific and accounts in the Canadian National Railways.

That revealed, among other things, and most importantly, that the provisions for depreciation had been done on quite a different basis in respect of the Canadian National Railways than in respect of the Canadian Pacific, with the consequence that we in the Canadian National Railways believe that we are very grossly under-depreciated in terms of the amount of money set aside for depreciation. Incidentally, if we had depreciated at the same general rate,

then we would not have had to do the amount of borrowing that we have had to do since then to provide for the rehabilitation of the railway to which I referred this morning.

Again, generally, with regard to the dieselization of the railway, in the last ten years we have expended just under \$2 billion on dieselization and general rehabilitation on which we pay fixed charges because of borrowings. It is this large borrowing which got us into our present difficulty.

Mr. FISHER: How can we help but form the opinion that this depreciation matter is the result of an error on the part of management? I have gone back through the annual reports of your appearances before these sessional committees and I cannot remember before last year that depreciation ever became an issue.

Mr. GORDON: Well, of course, these things are not chargeable to errors. They are chargeable to a difference of opinion as to how the accounts should be set up. There were different types of depreciation measures which were in force, and there are three or four types of depreciation about which there was nothing wrong. In the days I am speaking about, in the thirties, the Canadian National Railways adopted a form of depreciation which they thought was appropriate for that day. We believe that that had the result that we have not set up enough depreciation in the light of what has actually taken place. So, our arguments will be both in respect of recognizing that and also because of the uniform classification of accounts adopted in 1956, that this represents an appropriate time to have a look at it in order to put it on an appropriate basis.

Mr. FISHER: Since you introduced the Canadian Pacific Railway as an example of having a more realistic depreciation, would you tell us when they introduced their particular system of depreciation?

Mr. GORDON: I could not, offhand. I am sure their system has varied over the years as much as has ours. This has been part of the trouble in trying to get the facts, because it has varied over the decades. I cannot speak for the minister, but he has before him now a presentation made by the management of the Canadian National Railways with the endorsement of the board of directors. It contains certain proposals. It has gone to both the Minister of Finance and the Minister of Transport. If they think well of it, I presume, Mr. Minister, you will have to make a policy decision. I presume also that when you ask the House to make a policy decision you will inform them the basis on which that policy is being enunciated and I assume also you will give them the sort of presentation we have made to you so that they will understand what it is they are going to do.

I may be innocent in this, but I take it that it is always the desire of the government to inform the members what they are doing and why.

Mr. FISHER: When did you, Mr. Gordon, as president of the railway become aware of this depreciation factor and what it was causing in relation to the debt situation in the C.N.R.?

Mr. GORDON: I would say, roughly speaking, about 1958 or 1959, after we began to realize the impact of uniform accounting. Mind you, this is not an easy matter. It is a most complex thing, let me assure you. It was not until 1956 when uniform accounting took hold and began to expose the sort of thing I have been mentioning that there could be a proper realization of the impact in terms of their end result; that plus the fact that the ten year interregnum was drawing to an end. In other words, it ran from 1952 to 1962. It was nine years that it ran. It was when we began to take a look at what was implied in this that we decided to take a hold of this whole situation and see what we could do about it. It extended to 1960. One of the arrange-

ments, among other things, was that in the 1952 revision, in addition to the adjustment of the transfer from the fixed interest charge, the federal government also undertook to purchase 4 per cent preferred stock in an amount equal to 3 per cent of the gross revenue. That provision expired in the spring of 1960. It was clearly understood that when that provision expired that would be the occasion for a look to see what had been the effect of the 1952 recapitalization. I ask you to remember that the 1952 recapitalization was not stated to be a final job because inherent in it were provisions which were due to expire, one in 1960 and another in 1961. The intention was there should be a new look at it. It was around 1958 or 1959 that I began to take a personal interest in this thing to see what might be the best way to go about it.

Mr. FISHER: That is when your accountants began to come up with the answer that the depreciation problem was central.

Mr. GORDON: Yes. That came out in part owing to the impact of the uniform accounting which became effective under order of the board of transport commissioners in 1956. That was imposed upon us by order of the board.

Mr. FISHER: Have you or any of your officials had any conversation with any of the employee organizations to secure their support or approval of your proposals?

Mr. GORDON: No, because it was only on October 10th that we were able to formulate our proposals on a basis where we could lay them before the government. I do not know the propriety of these things, but I do not feel we would be justified in discussing proposals with an employee group when those proposals have not been accepted by the government.

Mr. CHEVRIER: We have before us here the annual report of the Canadian National Railways Securities Trust which was the method by which the recapitalization was carried out in 1952. I wonder if we could obtain from the president some indication whether the proposals—without divulging them—which are now before the Department of Finance and Department of Transport contain recommendations that are similar to these in that the writing-off of the debt will be assigned to the securities trust? In other words, is it the intention of the Canadian National Railways to make use of this formula which was recommended by the Turgeon royal commission.

Mr. GORDON: I do not know how to answer that without giving you the whole formula that we are talking about. I have in my hand here—I keep it over my heart—a summary of my proposals. If the minister will tell me to release it, I will.

Mr. BALZER: I will not.

Mr. GORDON: That is the position I am in. I cannot deal with any one part sensibly without dealing with it all.

Mr. CHEVRIER: Perhaps I can ask the minister. Without divulging what the decision is or whether or not approval has been given, is it a fair question to ask the minister whether or not what is under consideration is a formula similar to that recommended by the Turgeon commission and which is contained in this report which we will be studying of the Canadian National Railways Securities Trust.

Mr. BALZER: Although I would like to be helpful, I do not think it would be proper on my part to tell you now what we might base our decision on in legislation that might come before the house. I do not think it would be proper at all, and I cannot do that. This is a matter that has been placed before the government. There is a certain proposal in it—a very interesting one. However, up until the government has made up its mind to bring in legislation on this

matter, I do not think it would be proper for me to give you any indication that what we have received is based on such and such a document, or on such and such a policy. I do not think it would be at all proper.

Mr. CHEVRIER: I agree that it would be improper to give this committee an indication of what the legislation is likely to be. I gather you cannot do that since the legislation has not come up for consideration.

Mr. BALZER: Yes.

Mr. CHEVRIER: I gather also you cannot do that because no conclusion has been arrived at.

Mr. BALZER: That is right.

Mr. CHEVRIER: But it seems to me there would be no objection in telling this committee whether or not what is under consideration is a scheme or a formula similar to that which was approved before. That is not getting the government into any difficulty.

Mr. BALZER: We told you this morning that this document from Mr. Gordon, which was addressed to the Minister of Finance, with a copy to myself, is a privileged document between the chairman of a crown corporation and the minister, and I think you will agree with me that it is privileged. I do not think I can say any more than that.

Mr. CHEVRIER: I was not requesting that.

Mr. BALZER: You are asking me if it relates to this or if it is based on this, and I cannot give you this indication.

Mr. RIDEOUT: Mr. Chairman, I came in late and got confused. I was shunted around in the hall. I thought we were sitting upstairs this afternoon.

I wish to enquire about the P.E.I. steamship service in the amount of \$14 million. Has the railway been approached by the government regarding the P.E.I. causeway. Is the railway to participate in this and are they going to run trains across this proposed causeway?

Mr. GORDON: The causeway has nothing to do with the C.N.R. If the government decides to build a causeway I assume that the impact of that on the railway will be discussed with us. However, there are no current discussions of which I am aware.

Mr. RIDEOUT: The ferries I know have something to do with the C.N.R.

Mr. GORDON: Yes.

Mr. RIDEOUT: And you are getting a subsidy. Am I not correct in that statement?

Mr. VAUGHAN: Those are operations which are under separate votes. They are operated for the government.

Mr. GORDON: These ferries are operated by the C.N.R. on the basis that the government pays the operating loss on the particular ferries. As a matter of policy whether or not there is a causeway is a matter entirely for government decision, but if and when the government gets to the point of determining what they want to do, then I would assume that any impact upon the C.N.R., either affecting the operation of the ferries or trains, or anything else, will be a matter for discussion at that time.

Mr. RIDEOUT: I am trying to project this proposition and I am wondering how the MacPherson report is going to affect the maritimes. We have agreed that \$10 million is involved in maritime freight rates by abolition of the Maritime Freight Rates Act. Am I correct then that the Prince Edward Island subsidy has nothing to do with it?

Mr. GORDON: It depends entirely on what the results of the legislation may be. If we continue to operate ferries, then these subsidies will be payable because they are based on the operating loss. If the government takes action to eliminate the need for ferries it will have to be decided then as to how the change will take place and who will pay for it.

Mr. BADANAI: Mr. Chairman, at adjournment I was enquiring into automatic yards and I have not been able to obtain a reply as yet. I would like to ask Mr. Gordon what the total cost of these automatic yards are.

Mr. GORDON: Which yards do you have in mind?

Mr. BADANAI: The yards at Toronto and Moncton. Also, I would like to know how they are financed.

The CHAIRMAN: If I might interrupt, Mr. Badanai, that subject will be discussed later on under "Developments".

Mr. BADANAI: All right. I will wait until then.

The CHAIRMAN: Mr. Pugh, and then Mr. Gregoire is next. Mr. Gregoire, did you wish to ask your question before you leave?

Mr. GREGOIRE: I am sorry but I have a plane to catch.

The CHAIRMAN: You have to go?

Mr. GREGOIRE: Yes.

The CHAIRMAN: Would you proceed, Mr. Pugh?

Mr. PUGH: Reverting to the question of depreciation, I take it from 1952 on you used the old method of depreciation and, as you said, when it came to certain capital expenditures or expenditures later on for cars you found you had to do considerable borrowing, in excess of what you would have had to borrow had you had your depreciation set up properly or had not changed it.

Mr. GORDON: Will you deal with that, Mr. Toole.

Mr. TOOLE: In 1952—

Mr. PUGH: I do not want the year 1952; I want the projection forward.

Mr. TOOLE: From there through until the time the reclassification took place we were only taking depreciation on a limited part of our property. We were taking depreciation on hotels and some of our rolling stock; we were not depreciating the railway line as such, and that includes buildings and everything.

Mr. PUGH: What was the cost of this excessive borrowing around this period of time? Was it based on this depreciation?

Mr. GORDON: The borrowing was made to pay for the capital cost of new equipment or new facilities in connection with rehabilitating the railway.

Mr. PUGH: Which normally would have come out of the depreciation account?

Mr. GORDON: If we had enough depreciation we would not have had to borrow; it would have been charged to our own account.

Mr. PUGH: Since 1952 and on—and I am sorry, but I am new and I do not know the figures—were we in the red?

Mr. GORDON: If you look at the very last page of your report, namely page 34, you will see the deficit and surplus position from 1937 on. You will see we were in a surplus position in 1956. There was a surplus of \$26,077,000. In 1957, after uniform accounting, we went into a deficit position of \$29,573,000; also, from 1952 on, when the recapitalization was made, we had a small surplus position in respect of the years 1952 and 1953, and then we returned to a surplus in 1955 and 1956. But from 1957 on we are shown in the red. I think

that I do see the point of your question. Would you turn to the balance sheet on page 22. You will see there the heading "Property Investment"; you have \$2,388,557,413 in respect of road, \$1,329,020,863 in respect of equipment and \$110,760,187 in respect of other physical properties, a total property investment of \$3,828,338,463, less recorded depreciation of \$681,880,200. Now, our contention is that \$681,880,200 was much too small in light of the actual need and in light of the uniform accounting which later took place—and it is too small relative to what you would find in the C.P.R. balance sheet.

Mr. PUGH: Although that is correct, it brings me to the crux of my question, which is this, that had you taken depreciation in the manner in which you have set it up now since 1958-59 on, that would have produced quite a different picture in the balance sheet in connection with surplus or deficits.

Mr. GORDON: It would have increased the deficit in these years and as that deficit is paid by government, we would have had the money to buy new equipment instead of having to borrow it.

Mr. PUGH: Well, it is six of one and half a dozen of another.

Mr. GORDON: Oh, no. It is very important from the standpoint of the appearance of our operations.

Mr. CARTER: Before we leave this page, I would like to ask Mr. Gordon if he would bring us up to date on the other proposed ferry services between North Sydney and the east coast of Newfoundland. Where are we at now as far as that is concerned?

Mr. VAUGHAN: Do you mean the Cabot strait service?

Mr. CARTER: The one that I understand has been approved is the new ferry service between the mainland and Argentia, or something of that order.

Mr. GORDON: That is a matter for the Department of Transport to consider. We will perhaps be operating it.

Mr. CARTER: Perhaps the minister could give me some indication in this regard.

Mr. BALZER: All I can say in that regard is that the C.N.R. has not been asked yet to take over this operation if and when a ship is built.

Mr. CARTER: No order has been placed as yet for a ship?

Mr. BALZER: No, no order has been placed for a ship as yet.

Mr. ADDISON: Mr. Gordon suggested that the accumulated depreciation for 1961, which I believe was \$54 millions, is not included in the profit and loss statement, and this would have increased the loss of \$67 millions by \$54 millions, is that correct? There is no depreciation shown on your profit and loss statement at page 25.

Mr. GORDON: It is shown there. If you turn to page 26 you will see the operation of the depreciation account there. We showed depreciation on December 31, 1960 at a figure of \$627,462,210. We depreciated the property under the headings shown there with the result that \$54,417,990 was added to our depreciation account and spread to our operating expenses, depending upon the particular item.

Mr. ADDISON: Is that under road maintenance and equipment maintenance?

Mr. GORDON: I am sorry, I am wrong in stating that figure. It is not the net figure. It is the \$92 millions that you see there which is spread through the operating expenses. The sum of \$92 millions was charged to operating expenses and that other figure is offset in regard to property retirements, which means the net figure for depreciation is \$54.4 millions.

Mr. ADDISON: That is shown in that group of railroad operating expenses?

Mr. GORDON: Yes, it is. If you turn to the page before that, page 25, under the heading of railway operating expenses, you will see the breakdown of the sections under which the \$92 millions is shown. There is \$45,579,000 charged against road property; \$44,812,000 charged against equipment; \$1,606,000 charged on depreciation on hotels, and some sundry odds and ends amounting to \$669,000, making a total depreciation provided for the year, as I said before, of \$92,667,000 spread through this account.

Mr. CHEVRIER: Mr. Chairman, I think Mr. Gordon said this morning that freight revenue had declined \$12.3 millions or roughly 2.3 per cent. Has the freight rate structure anything to do with the diminution of this freight revenue?

Mr. GORDON: That is a matter of opinion in a way. The freight rate structure now is in a situation where a lot of it is frozen.

Mr. CHEVRIER: I was going to lead up to that situation but first I wanted to know if it had any bearing on this position now, and what bearing it will have if the recommendations of the commission are carried out.

Mr. GORDON: I think we will have to wait and see. We do not know at this moment. As I said this morning, the rates have been frozen now for quite a period of time. When we are given the freedom to increase the rates, whether we will actually be able to adjust the rates upwards and hold the traffic is a matter of very great judgment. We will not know about that until we have had the actual experience.

Mr. CHEVRIER: May I put it this way then? The commission has suggested minimum rates based on the out-of-pocket costs?

Mr. GORDON: Yes.

Mr. CHEVRIER: It has also suggested maximum rates on carload lots. In other words it has given the railroads certain freedom in fixing rates so that they will not be lower than the out-of-pocket costs, nor higher than such costs plus 150 per cent for overhead. That is the recommendation of the commission. Would you care to comment on that recommendation as to minimum and maximum rates so far as revenues for the C.N.R. are concerned?

Mr. GORDON: I do not care to make prophesies because I always find some members check me up and then come back to find out whether I was right or wrong.

Generally speaking I would not expect, in the first instance anyway, to find that our freight rates would show much in the way of an upward thrust. This would depend entirely upon the traffic and the nature of the competition. Certainly, with freedom to act we will have a much more flexible situation and perhaps that should be to our advantage vis-a-vis competition.

Mr. CHEVRIER: Do you think that the minimum and maximum as recommended would be acceptable to the railways?

Mr. GORDON: Yes, we are prepared to go along with them.

Mr. RIDEOUT: Mr. Chairman, perhaps I should rephrase my question with regard to the P.E.I. set up. Am I right in suggesting that the MacPherson report recommends the abolition of the Maritime Freight Rates Act and also the abolition of this subsidy in respect of steamships and, if that is correct, will that mean an increase in the ferry service from Cape Tormentine to Borden? What I am trying to do is find out just how much it will cost the maritimes to implement these MacPherson report recommendations in respect of which the government appears to be favourably disposed.

Mr. GORDON: I see that I should have done a lot more homework in respect of the MacPherson report. I was well briefed and had the answers flowing from my mouth last March, but six months have passed since that time and

I have forgotten many things. Perhaps one of my assistants could give me that information. I do not think the MacPherson report has anything to do with the ferry services in Prince Edward Island. I do not think ferry services are mentioned in respect of any recommendation in the MacPherson report.

Mr. RIDEOUT: I gather that we will only have to pick up the tab in the maritimes to the tune of \$10 millions?

Mr. GORDON: I do not know what you mean by "picking up the tab".

Mr. RIDEOUT: I understand you are going to abolish the subsidy.

Mr. GORDON: Yes, but that is going to affect the railway, it will not affect the shippers necessarily.

Mr. RIDEOUT: It is bound to affect them indirectly, is it not?

Mr. GORDON: No, not necessarily. This will depend upon whether the forces of competition will in fact enable us to increase the rates, and I very much doubt whether they will. My own belief is that very little of the subsidy that we lose under the Maritime Freight Rates Act, if that is the recommendation, will actually be reflected in increased rates. I doubt that very much. There may be isolated cases, but I doubt whether as a general thing that will happen. This will involve something removed from the railway income account, offset by other things. You must not jump to the conclusion that the abolishment of these subsidies will represent something out of the pockets of the shippers.

Mr. RIDEOUT: That is exactly what I was afraid of; those that have shall have more and from those that have not it shall be taken.

Mr. GORDON: I know my Bible well enough to know that has nothing to do with money. That has to do with faith in our Lord—"For unto everyone that hath faith shall be given, and he shall have abundance; but from him that hath not faith shall be taken away even that which he hath."

Mr. CARTER: Mr. Chairman, for the purpose of clarification, I should like to follow up an answer given by the minister to one of my earlier questions.

Has any investigation been carried out, or studies made with respect to the location of terminals for this new ferry service, and have they been carried out by the railway or by the Department of Transport, or just in a general way?

Mr. BALCER: Perhaps I can answer that question. Studies have been carried out by the maritimes commission.

Mr. CARTER: They have been carried out by the maritimes transportation commission?

Mr. BALCER: By the maritimes commission. The subsidies that the C.N.R. is receiving for this ferry steamship operation is paid by the maritimes commission.

Mr. CARTER: Has that commission actually decided where these terminals shall be?

Mr. BALCER: That commission makes recommendations to the government, but that is the body which sends people to investigate and make reports, and then the statistics and reports are used as the basis for government decision.

Mr. CARTER: Are these still going on, or are they completed?

Mr. BALCER: I think they have been completed. I am subject to correction.

Mr. GREGOIRE: Mr. Chairman, I would like to come back on a point raised a few moments earlier regarding this new recapitalization of the C.N.R. Will this new recapitalization involve also a kind of reconversion of the actual debt of the C.N.R.? I see here on page 27, for example, that we have two amounts due soon, one on February 1, 1963, \$250 million, and another on December 15, 1964, \$198 million. Will the new recapitalization of the debt affect these two amounts or involve a reconversion of these two amounts?

Mr. GORDON: That will depend on the extent to which the government accepts our recommendations. I cannot tell at the moment. We discussed that when you were out of the room. I cannot tell the extent to which the government will accept our recommendations, but broadly speaking I can say this much, that if our recommendations are accepted and there is a recapitalization along the lines I outlined earlier, then the problem of refunding these items would not be before us; it would be absorbed in the recapitalization formula.

The CHAIRMAN: Any other questions on this item?

Mr. FISHER: Yes. What steps has your system taken in order to get a higher proportion of the higher rated traffic? You point to a decrease in the revenue due to the higher proportion of low rated traffic. I assume you will continue to make agreed charges as aggressively as you have in the past. What steps have you taken to try to recapture more of the higher rated traffic, or is this a situation where the traffic is changing in such a way that you can do nothing about it?

Mr. GORDON: It is a combination of both. It is part of our business to go after the "juicy traffic", as we call it, to the best of our ability. That is the job of our sales force. It also depends on whether or not we can provide the kind of service and facilities that will attract the traffic against the competition. We have lost heavily and are still losing heavily in terms of the traffic. This is the kind of traffic that is, of course, vulnerable to the trucking industry, and we have lost heavily in respect of less than carload freight traffic handled. Now our express traffic is giving us cause for concern. The only way we can gain more of that traffic is to improve our service and sell our service at the best possible price.

Mr. FISHER: Has the opening up of these new speed trains across the country enabled you to at least hold your own in this particular field?

Mr. GORDON: We think so. We have put in this "highballer train" and we think that with this we will have a much better service for express and for mail. For that reason we have been able to hold traffic and to increase traffic on that particular train.

Mr. FISHER: In the particular year that we are studying, did the C.P.R. suffer the same kind of decrease?

Mr. GORDON: Yes, I would say by and large. I have the report here. I have not got the percentage, but you can get the rough figures here. The railway revenue on our accounts shows \$626.5 million in 1960 and \$638.2 million in 1961. The C.P.R. account on a comparable basis is \$457 million in 1960 and \$465 million in 1961. In other words, they increased by \$8 million and we increased by \$12 million.

Mr. FISHER: The ratio is pretty much the same.

This brings up another general question, Mr. Gordon. You are reaching the end of your great expenditures and an improvement of service and equipment and yet these operating revenues from last year would seem to indicate that you are no more than holding your own in so far as the freight traffic is concerned. If this is a steady trend that you are up against, what arguments can you put against the fact that a lot of your expenditures to make improvements may go for very little?

Mr. GORDON: There are two things I can say on that: one is that the expenditures on the automatic hump yards have very little to do with the express; they have to do with handling carload traffic. Our carload traffic has held up well, and when we get these hump yards into operation—they are not in full operation yet and will not give us the full benefit until we get them all into operation because then they will operate as links in a chain. Then, I hope the trend will have changed. We opened up one hump yard a couple

of months ago. A couple of years have to pass before we get them coordinated, nevertheless our carload traffic has held up. Where we are being hurt is in our L.C.L. traffic, which is one of our very acute headaches because it is in this area that we find the impact of competition most severe. It is due to the fact that we just have not got the kind of service under present day conditions that can properly compete with the highway. For instance, when we start to pick up an L.C.L. package, let us say from Hamilton to Barrie as an example, we have got to bring it by train from Hamilton to Toronto, shunt it around, change it to another train, and then send it on its way to Barrie. By the time we get through with it we may find three or four days have passed before we are actually able to get it there on the railway, while trucking operators can pick it up and drive it to Barrie in a day. We have to match this, and that is what we are doing in our merchandising service. We are in the thick of it to determine whether we can compete in that area.

Mr. FISHER: If you cannot compete, what is your solution? Is it to extend your own trucking operation?

Mr. GORDON: No. If we cannot compete on the basis of using the truck as an ancillary tool along with the railway, my own opinion is that if we cannot compete against other competition, then we ought to quit.

Mr. FISHER: You would gradually lose out in the L.C.L. traffic?

Mr. GORDON: If that is the answer, but I do not say it is. I am only taking your "if" on that. At the moment I am still satisfied that with proper reorganization, with all the things that would have to go into it and with the readjustment of our labour forces in our freight sheds, adjustment of seniority, coordination of trucks along with the benefits of the railway, that we can produce a service that will be competitive with the trucks generally. But that remains to be seen. We will lose some of it, but as it stands now what has been happening to the railways is that they are being left with the L.C.L. traffic which is bulky and awkward to carry and which nobody else will take. We have been left with the poorest kind of carryings while the juicy traffic has been siphoned off into trucks. We have to remedy that and we think we have a remedy. We are very much involved in it but it will take time to get results.

Mr. FISHER: Could you give us any idea as to the length of time before we would be able to make a fair judgment as to your capacity to really meet this challenge?

Mr. GORDON: I would say you would need to give us from three to five years depending on circumstances. Remember this means a terrific change in the manner of doing business. It really means we have to mesh or put together our L.C.L. traffic with our express traffic. It means that we have to change our whole idea of how to handle the traffic, and we have to change our whole idea in regard to the distribution of the traffic. That is a slow painful process as we have found, and it means that we must take our present freight sheds which are largely used for L.C.L. traffic and re-orient them so that they can be adjusted to the putting together of these two completely different kinds of business, as it has been treated in the past. That means that we must have an agreement with labour, and we have made excellent progress in that respect, but we must carry out our bargain with labour and see that we follow through and get this thing working.

Mr. FISHER: Are you working towards the model system which the Canadian Pacific introduced in the British Columbia region?

Mr. GORDON: I would hope not. We want something that will work.

Mr. FISHER: You said you intended to keep the trucks as ancillary to the main rail operation in so far as L.C.L. traffic is concerned. I would like to know whether your main competitor is operating under the same policy.

Mr. GORDON: Oh, generally speaking, I would say yes, they must be. I do not know what their long range policy may be because they may have some machiavellian plots of which I do not know. But if you look at their balance sheet and our balance sheet you will see that their investment on the physical railway must mean that the trucking operation today is still a relatively small part of the business.

Mr. FISHER: I would like to ask you for assurance that this Canadian National Railways policy will continue to be Canadian National Railways policy and that your trucking operations will be ancillary to your rail operations.

Mr. GORDON: The word ancillary which I used might be used by way of a definition which might be quite restrictive. I did not intend it to be restrictive at all. I say to you that the Canadian National Railways policy—as I explained this morning—is to use any mode of transportation; anything, from a wheelbarrow up, which will give us the business. If we can get business of any nature by using any sort of transportation then we intend to get it. Nevertheless, our basic business is the railway business, and because we have such a large investment in the railway business as such, we intend to continue to experiment to see how we can provide these services and get the business.

Mr. McDONALD (*Hamilton South*): You indicated that you had vigorous sales forces. Is it the policy of the Canadian National Railways to have two locations of salesmen, whereby the trucking firms, as well as their duties and services, are promoted, while the railway also have their sales and services?

Mr. GORDON: It is hard to say, because we are in the midst of a very difficult period of transition. The end result is intended that we will have one sales force which will cover everything. But as of now, you could quite easily see instances which appeared to be duplication, because we have not successfully merged the operations yet; far from it.

Mr. McDONALD (*Hamilton South*): I would like to ask one question. Mr. MacMillan the executive vice president of the Canadian National Railways stated that the trucking companies would run as separate corporate entities, functioning by themselves. I take this to mean that they would have separate books and policy. Is it your intention, as president of the Canadian National Railways, to integrate the trucking services into one service of the Canadian National Railways system, and therefore not have it as auxiliary?

Mr. GORDON: Well, that leaves a great deal of thinking. The MacPherson report in referring to that does recommend that the bookkeeping should be set up in such a way that you can clearly show the effect of the trucking operation. How we shall work out a formula for that is something which will give us some concern, because you will get a mix of services in our merchandising services where it would be hard to say what is railway, and what is trucking. But as far as we can, we intend to operate the trucking services separately so as to establish whether or not we are making money.

Mr. McDONALD (*Hamilton South*): There is cooperation between the sales of the trucking and the railway operations?

Mr. GORDON: That is the intention, but it does not always work.

Mr. McDONALD (*Hamilton South*): You have agreed charges to different sections of the country for heavy bulky commodities, have you not?

Mr. GORDON: Yes.

Mr. McDONALD (*Hamilton South*): Would there be any collusion between the salesmen of the trucking firms to tie up one trucking firm to the railway firm whereby they could say to a person who ran a factory that if you give us your less than carload rates for your bulky commodities, we will go ahead and give you an agreed charge in agreed areas?

Mr. GORDON: That is one I did not think of. I had not heard of that one. I will take a look at it.

Mr. McDONALD (*Hamilton South*): It seems to me it would be a good sales policy, but if this should be the case, the trucking industry would be hampered by the sales forces of the Canadian National Railways using agreed charges, and it might ease competition or clear competition.

Mr. GORDON: I do not know of any agreed charge at the moment that applies to other than carload lot traffic.

Mr. RIDEOUT: Are there any companies that can take advantage of less than carload lots?

Mr. GORDON: Yes; the forwarding companies can go out and get a carload rate and quote the L.C.L. rate to the shipper. But we do not do it. The agreed charges, as I recall it, cover carload traffic.

Mr. McDONALD (*Hamilton South*): That is my understanding, that it did affect carload traffic. But are the Canadian National Railways participating in conjunction with their trucking salesmen to say that if you give an agreed charge to a certain manufacturer, let us say, with a bulky commodity, that you must give him a rate for less than carload lots, which may be lower than the agreed charge to ship to the maritimes?

Mr. GORDON: I do not think we could get away with it.

Mr. McDONALD (*Hamilton South*): That is one of the reasons I am worried, because I think you as a competitor would have unfair competition with the trucking industry as a whole.

Mr. GORDON: You are quite right, but we have never introduced these methods in connection with our trucking services. We have specific instructions that we will not give such rates.

Mr. CHEVRIER: This morning we were discussing the abandonment of branch lines, and the subsidy which the Canadian National Railways would get in lieu thereof. My question is now, having regard to the statement made by the president this morning, has consideration been given by the railways to the abandonment in the United States of branch lines, and what is the picture with reference to the profit or loss operation of United States lines owned by the Canadian National Railways, of course.

Mr. GORDON: That covers quite a lot of territory. But in answer to your first question I cannot think of any specific application for branch line abandonment in the United States currently, because we would get them off just as fast as we could if we found that they were losing money. We do not feel that we have any obligation in the United States to continue a losing branch line.

Mr. CHEVRIER: Last year you gave quite a comprehensive report on the operations of the United States lines owned by the Canadian National Railways. In some cases—unless I was mistaken—I think it indicated that there were losses.

Mr. GORDON: The trouble is that there are two situations which are very difficult to handle, and they represent a conflict of interest. In the first place I can say, generally speaking, that if you take our United States lines and give them credit for their feeder value, that is, for the traffic which originates on them or which comes to them as the case may be, then they are profitable operations. But we can see no possible sale that would leave us in a better position, that is if we sold them to a United States railroad.

The embarrassment I have is that if we start in to try to produce statements we run into a question of the taxation situation respecting the United States. We have alleged always, of course, that any traffic which is traceable and handled in Canada should not be included in any of our U.S. operations

for purposes of reporting for income tax in the United States. We made that case stick. There could, however, be views about that in terms of taxation arguments. As I said before, the feeder value of those lines is quite sufficient to warrant their continuance. The other thing I want to say to you is that in light of discussions which have taken place in that respect we, and I personally, have been approached all over the place with suggestions that we want to sell our United States lines. That is not good for business; it is not good for our shippers' business in the United States and it is not good for our employees. It has left us in a very unfortunate position, in trying to deal with these kinds of approaches, and particularly with the merger talk going on in the United States today. We would much rather be left alone to determine ourselves what the advantage would be and whether or not we would dispose of these lines and what would be the net beneficial effect on the C.N.R.

Mr. CHEVRIER: With reference to the feeder value, does the argument apply to the lines which are purely in Canada and which are not profitable?

Mr. GORDON: Yes. When we make application before the board of transport commissioners having to do with branch lines, we give full credit under the formula for any feeder value.

Mr. BADANAI: What is the book value of United States lines?

Mr. GORDON: The book value that we show under our property account before depreciation is \$186,135,811.

Mr. BADANAI: Has the system lost money over the years in the operation of the United States lines?

Mr. GORDON: If you say over the years, I could not give that of my own knowledge. Any time we have analysed it—and that is about every five years—we have demonstrated to ourselves that the feeder value of the lines makes it worth while.

Mr. BADANAI: You consider it worth while retaining the lines.

Mr. GORDON: At this moment, yes.

Mr. GREGOIRE: Mr. Chairman, I see here in this chapter on operating expenses that determined efforts to keep all controllable expenses to a minimum resulted in a reduction of \$6 million excluding new wage increases in operating expenses despite a modest increase. You mention here that this is a reduction in operating expenses, but after that you say, in the third line, that the reduction was more than offset by the addition of \$22.3 million to wage costs. When I look at the last page of this report, page 34, and compare 1956 and 1961, and make the calculation regarding the number of employees and their average earnings from 1956 to 1961, I can see that the salaries have not increased but have decreased in the total amount.

Mr. GORDON: This is a weird calculation which I cannot follow.

Mr. GREGOIRE: You decrease the number of employees but the rate of earnings are increased.

Mr. GORDON: Yes.

Mr. GREGOIRE: But when you make the calculation of both figures and consider the fact that even if the wages are increasing the number of employees is decreasing, then you arrive at less salaries in 1961 than in 1956.

Mr. GORDON: The total wage bill?

Mr. GREGOIRE: Yes.

Mr. GORDON: You have to take that in relation to the work done. If you look at the heading freight revenue you will see the amount of work done in 1956 was considerably higher than in 1961, 41,935,000,000 of freight revenue ton miles handled in 1956, whereas it was only 34,723,000,000 in 1961.

Mr. GREGOIRE: Yes, but the part I would like to clear up is that you mentioned that this reduction was more or less set by the addition of \$22.3 million to wage costs. It is not the fact that the freight revenue per ton mile diminished, but you mentioned the fact that the wages would be responsible for the increase of the expenses while, in fact, the wages are not responsible for it.

Mr. GORDON: Every statement in this report is a fact. Let me make that clear. When I said the wage costs have increased by \$22.3 million, that is a fact as the figures will show.

Mr. GREGOIRE: When we look at both amounts regarding the number of employees and their salaries per hour we arrive at a decrease in wage costs.

Mr. GORDON: If you look at the average rate of earnings per employee you will see that in 1956 the average earnings per employee were \$1.645, and in 1961 the average employee received \$2.060, which is an increase of—I mean an hourly wage of \$1.64 as against \$2.06 in 1961. So, we paid him for each hour's work a very substantial increase as compared to 1956.

Mr. GREGOIRE: But if you have fewer employees,—make the calculation and you will see the total cost for wages would be lower in 1961.

Mr. FISHER: The actual D.B.S. figure for the total payroll increased \$13 million in 1961 over the previous year. I can see what Mr. Gregoire is after. The inference is that wage rates increased the payroll \$23 million. This cannot be so. That is what you are after.

Mr. GREGOIRE: Yes. Are not these increasing wage costs for the employees who are not paid by the hour—the administrative or other?

Mr. GORDON: This is the table which shows the actual increase in system operating expenses due to wage awards in 1961 versus 1960. The total of \$22,340,000 is the actual money spent on an increase in wages.

Mr. FISHER: I think Mr. Gregoire's point is in effect that the actual payroll, from 1960 to 1961, despite the increase of some \$22 million, was actually much less than that because of the fact that you had so many fewer employees.

Mr. GORDON: That is not true either. The actual figure is higher in 1961 than in 1960. The actual dollar figure in 1960—the total compensation—is \$448,262,000 as against \$456,625,000 in 1961.

Mr. FISHER: I just said the ratio was different and these statistics you have given seem to be different from those of the dominion bureau of statistics for your operating statistics.

Mr. GORDON: Are we finished with this question?

The CHAIRMAN: I do not know.

Mr. GREGOIRE: Did he give the answer?

Mr. GORDON: I have given the answer to the extent of my comprehension of your question.

First of all, the actual increase in the systems operating expenses from 1961 due to wage awards was \$22,340,000. But if you translate that into the actual payroll cost,—obviously the numbers of employees change—in 1961 we spent \$456.6 million total wages against 448.3 million total wages in 1960.

Mr. GREGOIRE: But that is not an increase of \$22 million.

Mr. GORDON: No, but this is a different comparison. Our actual increase in wages was \$22.3 million which I said was due to wage costs resulting from contract settlements, and here they are. By the time we made the settlement the wage costs were increased by that much.

The CHAIRMAN: Are there any further questions on the first item?

Mr. RIDEOUT: Are we proceeding to operating expenses now, Mr. Chairman?

The CHAIRMAN: I would hope we were but I do not believe that such is the case.

Mr. FISHER: Mr. Chairman, I wanted to revert to what we were discussing earlier with Mr. Gordon in connection with the changes contemplated by the railway in order to meet the impact over this transitional period, and I wanted to get an explanation for a statement which Mr. Gordon made at Toronto on August 30, 1962, which was reported in the *Globe and Mail* of August 31. I would like Mr. Gordon to tell us what he means by this— and assuming, of course, that the newspaper had quoted you correctly:

From a technical point of view, complete unification of rail, road, water and air into a single transportation system may be quite possible. Then he goes on to say:

But it may not be possible, or necessary, or desirable from an organizational and competitive point of view.

He was suggesting, he told the CNE directors and their guests, a voluntary arrangement under which independent units would exchange ideas and information and make services available, to each other with the primary purpose of providing maximum efficiency and economy in operation by avoiding wasteful duplication of services and the need for subsidizing uneconomical operations.

I can only assume from that statement, Mr. Gordon, that you are contemplating a voluntary arrangement with both water and truck companies which, as you suggest, will be of a voluntary kind, and under which you would work out some kind of flexible system so there would not be duplication. Is that correct?

Mr. GORDON: I do not know that I can add much more to what I have said already. I imagine they understood what I said. The quotation that you made referred to a voluntary arrangement under which independent units exchange ideas and information and make services available to each other with the primary purpose of providing a maximum of efficiency and economy in operation by avoiding wasteful duplication of services and the need for subsidizing uneconomical operations. A recent and dramatic example of co-operation in the field of communications is to be found in the launching and successful operation of Telstar.

Telstar, the product of the cooperative effort of many groups and individuals representing private enterprise and government, is a truly historic breakthrough in the science of communications. What I have in mind is that we do not necessarily have to wait for legislation to force this kind of co-operation. It can be done with good sense and a clear understanding of the benefits to be derived therefrom.

Mr. FISHER: But, apply this for me and, perhaps, for other members of this committee, in terms of this problem you have in the Toronto area, less than carload lots, where you are scrambling very hard to meet a competitive challenge.

Mr. GORDON: Well, there are quite a number of ways that could be worked out, but it would have to do mostly with a real understanding in regard to other modes of transport, particularly trucking, as to areas and methods by which the loads would be handled.

Mr. FISHER: Are you working on this right now?

Mr. GORDON: No.

Mr. FISHER: You are speculating and exhorting.

Mr. GORDON: Yes; I was just making a speech!

Mr. McDONALD (*Hamilton South*): When you spoke of designating an area in which your program of consultation could go through do you mean by that that you as the president of the railway company would designate an area whereby your auxiliary trucks would have exclusive right to haul into the main line?

Mr. GORDON: Now I am in trouble. I knew I should not have given you an example. I do not know what I mean; let's be clear on that—in that way I cannot be committed to anything.

Mr. McDONALD (*Hamilton South*): Well, you talk about wasteful duplication of services and you indicated here trucking is used as an auxiliary. With Midland-Superior trucking rights from Western Canada to Montreal running parallel to your rail service do you not think this is a wasteful duplication of services?

Mr. GORDON: No. There are different kinds of services for different kinds of approach. There can be interlocking of all kinds of things. The fact that a truck runs alongside the railway certainly does not indicate it is unnecessary duplication. The truck can do a kind of service in many ways which the railway cannot. The same applies to piggyback; we use the trains to overcome the costs that the trucks would have on certain lines in connection with long hauls. There are various types of interlocking and it is not confined to trucks; it could be between the railways. We could interlock with the C.P.R. more, if we got down to cases, but I better stop talking that way at this time.

Mr. McDONALD (*Hamilton South*): In regard to the speech, of which I have a copy, you almost could read into this, if you were prognosticating a long way, a type of nationalism in connection with transportation, and I really want a clarification that this was not the intention of this speech.

Mr. GORDON: I particularly pointed that out. Let me say this to you: certainly it is obviously true that if there was one monopoly of transportation in this country we could probably eliminate a good deal of duplication, but whether or not it would be more efficient would be another question. We certainly could cut out a good deal of duplication that arises out of our competitive system. But I am not suggesting that at all; I am a strong believer in competition. I believe in the competitive system. But I am pointing out that it should be quite possible to use the competitive system and still obtain a degree of rationalization, if you want to use that word, or interlocking, which will eliminate some of the more obvious waste of the competitive system. The waste of the competitive system is a relative term; personally, I believe in the competitive system to the point that I am prepared to say that the waste that goes with it is a price well worth paying for it.

Mr. McDONALD (*Hamilton South*): Was it not when the competitive system was in effect, using the trucks as an example, that rail rates came more in line, thereby giving the consumer the benefit of this. If it had not been for competition, with the trucking firms entering the field, would it not have forced you into a position where right now you must buy trucks to go into competition with your competition?

Mr. GORDON: That is a debating point on which I would not comment. It would necessitate someone interested in trucking—and I do not know whether or not you are.

Mr. McDONALD (*Hamilton South*): Yes, I am; although I do not own any trucks I am associated with a firm.

Mr. GORDON: I am quite sure you could hold a brief to that extent, and I am sure a railway man could hold a brief in another way, and you could not prove it one way or the other. Actually the matters of improvement that I have seen in the railway business have not been sparked necessarily by trucking,

but by new technology in the railway business. You might perhaps come back and say that if it had not been for the trucks we would not have done it, and that might be another argument.

Mr. McDONALD (*Hamilton South*): It is relative, is it?

Mr. GORDON: It is relative. You could say the same thing about the airlines. That is, the airlines have been in operation but if they had not offered that type of competition things might have been different.

Mr. CARTER: Mr. Chairman, I would like to follow up with one or two further questions in regard to this subject. Trucking companies put forward the argument that because the C.N.R. collects subsidies from the government the government is enabling the railway to lower its rate, making it easier for them to compete with the trucking companies. I should like to ask Mr. Gordon to comment as to the relative advantages to trucking companies because the provincial governments supply the roads as compared with the disadvantages to the railways because of their having to build and maintain their own roads. Have any comparative studies been made in this regard?

Mr. GORDON: There have been various studies made in that regard but I do not think they are precise or of a character that can be accepted. The fact of the matter is that the MacPherson commission again went very thoroughly into this whole question of trucking. They made a statement in this regard which I think is well worth keeping in mind.

The CHAIRMAN: It must be remembered that trucking companies must pay enormous licensing fees to the provinces.

Mr. GORDON: The MacPherson commission says in part in its report, when dealing with the theory of competition such as you have mentioned, the following:

We have stated that, with free entry, and the ever present possibility of private trucking, the structure of the trucking industry is such that effective monopoly in prices cannot persist. With competition thus protecting shippers, the only other disadvantage of large-scale railway ownership of truck lines lies in the danger that it poses to independent truckers. This danger can only persist if railway ownership is more efficient than either independent or private trucking. Efficiency should not be penalized.

That was their view in this regard.

I mentioned this morning and I repeat now, there is a great lack of perspective in this whole question of trucking. The best figures I have been able to get show that the trucking industry, and I am referring to commercial for-hire trucking, in 1961 had a total revenue of \$718,240,000 in Canada. I am not including, nor have we any figures indicating the amount of revenue of the private truckers, but a good guess would be that it is at least half as much again.

You have, therefore, an industry that is grossing on that basis well over \$1 billion in revenue yet they are worrying about the railways, and the C.N.R. in particular, and we only have a measly \$20 million.

We are not using the railway in any way, shape or form to drive the truckers out of business. I do tell you that our trucking arm, such as it is, shows a net profit and we intend to keep it that way.

I made a rather lengthy statement last year outlining the trucking policy of the Canadian National Railways. I would refer you again to that statement. It is a very lengthy statement and I took a lot of time having it prepared.

I said quite definitely at that time that the Canadian National aims to offer the kind of integrated road-rail service that is best suited to public demand

both in terms of cost and efficiency, bearing in mind that its basic interest is the provision of service through railway facilities in which it has a very large capital investment. The Canadian National Railways is in no way interested in driving the independent trucker out of business. Both the railway and the truck are tools of transportation and in the best interests of shippers and receivers each tool should be used as it is best suited.

That is our policy, no more, no less.

Mr. CARTER: In regard to my own question, I see at page 25 of the annual report that your road maintenance only amounts to \$166,739,542. Have you figures showing how much money you have tied up as capital invested in roads alone?

Mr. GORDON: Our property investment is shown here.

Mr. CARTIER: Yes, but I was interested in the amount tied up in respect of the roads alone.

Mr. RIDEOUT: Mr. Chairman, are we sitting beyond five o'clock.

The CHAIRMAN: I am entirely in the hands of the committee in this regard but I had thought we probably should sit until 5.30. At that time we will perhaps have a better idea of what we intend to do this evening.

Mr. CHEVRIER: I think we are proceeding very nicely, Mr. Chairman.

The CHAIRMAN: Do you think so?

Mr. CHEVRIER: Yes. I think the longer we take during the first part of the report, the faster we proceed during the last part.

The CHAIRMAN: In other words, the more parts we include in the first the sooner we finish the whole thing?

We will proceed until 5.30. Just to make sure that it is clear to all members, the committee will adjourn at 5.30 and reconvene at 8 o'clock in room 356-S this evening. We will be sitting to-morrow at 10 o'clock in the same room, room 356-S.

I think Mr. Benidickson had a question he wished to ask.

Mr. GORDON: I think I was about to answer a question asked me in regard to the amount of money we have tied up in our roads.

Mr. CARTER: Yes.

Mr. GORDON: Our total balance is \$2,388,557,413 as at December 31, 1961. We have \$1,329,020,863 tied up in equipment and \$110,760,187 in other physical properties making a total figure tied in with our balance sheet of \$3,828,338,463.

Mr. BENIDICKSON: Mr. Chairman, am I right on reflection, having been a member of this committee for some years, that a vice president of the C.N.R. informed me six or seven years ago that 90 per cent or perhaps more of freight between Toronto and Montreal, our most dense area, was carried by some transportation facility other than railways? Is that realistic?

Mr. GORDON: I do not recognize that figure, no.

Mr. BENIDICKSON: You do not recognize that figure?

Mr. GORDON: No, I do not recognize it.

Mr. BENIDICKSON: In any event as a result of piggybacking and other advanced methods you are acquiring new freight traffic. I should like some information in regard to the automobile traffic particularly to western Canada. Are you, through agreed charges, receiving a bigger percentage of the western automobile freight?

Mr. GORDON: Perhaps it will help you to turn to page 11 of the report. You will see a chart there based on the intercity revenue ton miles at the left and intercity passenger miles at the right. If you look at the passenger traffic you will see that the railway operation is indicated by the little wee square

of black at the bottom right. You will see the passenger automobile portion indicated by the dotted line that goes right up to the top. If you look at the legend you will see that the small black square at the bottom right-hand side there represents the Canadian National Railways portion and the uncoloured square represents the other rail lines. I think this gives a fair indication of the comparison.

The white portion is the portion of the market that goes by air. The next one, with the narrow line, is by bus. The great big portion that goes all the way down, nearly 90 per cent, is by private automobile. Then you come to the portion which is "other rail", and then the small black portion which is the C.N.R.

The CHAIRMAN: You mean C.P.R.?

Mr. GORDON: No, other rail. There are other railways besides the C.P.R. in Canada. This chart shows the magnitude of the passenger market that is monopolized by the private automobile. That is our real competitor.

Mr. FISHER: Mr. Benidickson's question related to the transport of automobiles from factories in eastern Canada.

Mr. BENIDICKSON: Have you not got a new deal which undercuts the trucks, and in consequence of that deal, or in preparation of it, you made a very substantial capital investment in new kinds of equipment?

Mr. GORDON: Yes, in the tri-level equipment which can accommodate 12 standard automobiles and which is being built. At the moment we have rented a quantity of them, but the use of this tri-level equipment is for the purpose of bringing automobiles into the railheads and will permit a downward adjustment in respect of former rail rates so that we are able to compete against those which are carried on the roadway.

Mr. BENIDICKSON: I am thinking again of public expense on investment in your roads and of course in the provinces' investment in highways where this has been a pretty heavy type of transport. I believe that fairly recently the railways have decided to invest on the communications side of their business in a microwave set-up. Is it so that prior to this decision the Bell Telephone Company almost had a monopoly in so far as tendering for C.B.C. business is concerned?

Mr. GORDON: No, on the contrary. We were in the business long before they were.

Mr. FISHER: Mr. Chairman, I want to raise some questions on the microwave matter and I am wondering whether this is the place to bring up this point. There is a section in the annual report which deals with that. I imagine Mr. Benidickson is interested in the same way as I am in the conflicting views of the new project as put out by Mr. Young.

Mr. BENIDICKSON: My interest was on the lines that I understood you had been discussing before. I am interested in the competitive angle and in the question of combinations combines, and so on.

The CHAIRMAN: Mr. Benidickson's question was on the item we were on, but what you mentioned, Mr. Fisher, would come on page 12, telecommunications.

Mr. FISHER: If Mr. Benidickson is through, I would like to come back to this.

Mr. BENIDICKSON: I am not through but you have been here longer than I have this afternoon. I am concerned with the taxpayers' money, the public money that is used, and I wondered to what extent, as a result of something we read about on the partnership between the C.P.R. and the C.N.R. in the setting up of another trans-Canada communications system, it has been efficient

for the public. Normally I believe in competition but I just wonder if the C.N.R. and the C.P.R. got together whether there is competition. What is the situation here on this very big investment and to what extent does it duplicate other existing facilities of this nature? How much of this goes to entertainment and how much of it goes for defence?

The CHAIRMAN: You are speaking of expenditures for 1961, or is it for a period of years?

Mr. BENIDICKSON: I think you will find, Mr. Chairman, in the budget that we now have a very substantial investment in this new project. As I understand it, it is the equivalent of what perhaps the Bell Telephone Company have already established in Canada, a trans-Canada microwave potential which could serve a lot of people. It could serve the purposes of the railway but it could also perhaps be a bidder for the business of the C.B.C.

Mr. GORDON: Basically that is what it is for. You must realize that the railways have been in the communications business, that is the business of transporting word and sound, long before the telephone companies were ever heard of or before the C.B.C. was heard of, and in the process a network of communications has been built across Canada, starting from the basic line on the telegraph. We have always been in the telecommunications business.

This microwave item that you are referring to referred to the building of a 3,000 mile network across Canada on which the Canadian Pacific and Canadian National joined forces. We are doing it on a joint account basis. We have been on joint account with the C.P.R. now for many years in respect of telecommunications for the specific purpose of trying to eliminate as far as possible duplication in this very expensive field of capital investment, particularly with reference to microwaves.

Now, microwave is a means of communication which not only carries the voice but it also carries television broadcasts, radio broadcasts and so on as well as data processing, weather map reports and so forth which appear under the general heading of communications. There came about a feeling that the facilities in connection with microwaves were not adequate to take care of the various growth in that field that has already come about and which we can see coming into being over the period of the next five to ten years. In the joint account with the C.P.R. we decided to build a microwave system.

I want to refer to the comment on the taxpayer's dollar. It is a complete misapprehension. The taxpayer's dollar is not involved in this at all; it only comes into play if we lose money on these propositions. We borrow the money, as does the C.P.R., to provide the capital to build this system, and if we make enough money out of operating it to show a profit, then the taxpayer benefits because it reduces our deficit on our other operations, and our telecommunication operations by and large represent a profitable investment. In other words, if a dispute arose with The Bell Telephone Company, who of course were trying desperately to maintain that their facilities were adequate, then it would become a difference of judgment between the two organizations.

Mr. BENIDICKSON: Did you have to get authority for the second 3,000 mile line from the board of transport commissioners?

Mr. GORDON: No, it came through the Minister of Transport. It is the telecommunication department.

Mr. BENIDICKSON: Was the decision as to public necessity and convenience taken by them?

Mr. GORDON: I am quite sure the government took into account the foreseeable needs of Canada not only in respect of the public but also having in mind such things as services and other things which would be in need of communication. The telecommunication branch of your department, Mr. Balcer, considered it carefully.

Mr. BALCER: That is right.

Mr. FISHER: I would like to ask the minister the following question. We have here a statement from Mr. Young, the chairman of the trans-Canada telephone system, that took very strenuous issue with the statement issued by the railways presidents. This is from his statement:

Present facilities are not able to keep pace with the expanding communications field.

This statement is completely inaccurate. The potential capacity of the existing microwave system is more than sufficient to meet all foreseeable communications requirements, including defence.

Defence requirements for the foreseeable future have been established with and allocated to the communication companies by a committee under the direction of the Department of National Defence. The trans-Canada telephone system has furnished and continues to furnish a major portion of these requirements, including the bypass of target areas.

The Trans-Canada Telephone System has offered to lease to Canada's railway systems all the communication facilities they require.

With no apparent requirement either for the public or for defence, the outlay of \$36,000,000 on a duplicate facility must impose a financial burden upon the Canadian public.

I would like to ask the minister whether this statement made on March 15, 1962, came officially to his attention.

Mr. GORDON: Did you read our reply?

Mr. FISHER: No.

Mr. GORDON: It is funny that you always seem to read one side of a question. You will read a statement issued by the Bell Telephone; and I think in ordinary courtesy, if you are prepared to do that, you might also have read our reply to that statement.

Mr. FISHER: I am not worrying about your view of what constitutes ordinary courtesy. All I am doing is giving a statement which I think is correct.

Mr. BALCER: That statement is not correct because at that time, when we took the decision, as Minister of Transport, I had already received the view of the railways, and I compared the value of both arguments, and I came to the conclusion—or the cabinet came to the conclusion—that the railways were right. That is why we gave them permission to build this microwave. I do not have my file here; but there were some very strong arguments in favour of giving this permission to the railways; and at that time there was a C.O.T.C. contract, as you know; C.O.T.C. was connecting their Atlantic cable with their Pacific cable which meant a tremendous increase in long distance messages across this country, and that would have increased the flow of messages and of signals across the microwave.

If I remember correctly, the telephone companies themselves, at the time, offered to build us a second microwave, and also they explained to us that in case of an emergency they would be ready, because they were connected with an American system, and our messages would have gone through the United States; so they were realizing that our microwave system across Canada could be overloaded. I remember those facts, but I do not have the file with me.

Mr. FISHER: You were the one who made the decision approving this enterprise by the Canadian Pacific and the Canadian National?

Mr. BALCER: That is right, I recommended the decision to the cabinet.

Mr. FISHER: And you had taken into account the protest of Mr. Young of Trans-Canada Telephone?

Mr. BALCER: Very much so; every argument brought forward by Mr. Young, I felt, was answered.

The CHAIRMAN: I think Mr. Gordon might put his statement on the record at this time, following which Mr. Foy has the floor.

Mr. GORDON: I would like to read this statement which was made by Mr. Crump and myself in immediate reply to the statement which Mr. Fisher has put on the record issued by the Bell Telephone. It is stated here:

...in reply to a statement on Wednesday by H. G. Young, chairman of the Trans-Canada Telephone System:

We fail to find any foundation for Mr. Young's assertion that our recent announcement was 'completely inaccurate' or that the communications networks by Canadian National and Canadian Pacific will result in unnecessary duplication of existing facilities.

The fact is that in the past ten years the volume of communications business handled by the railways has tripled. Our traffic between Montreal-Toronto and Vancouver has expanded to the point where further growth is no longer feasible through existing wire line plants. A microwave system is essential if the railways are to continue to compete for private wire, teletype circuits, data processing, facsimile transmission, telex and other telecommunication services.

The decision of the railways to build a transcontinental microwave system is based upon a careful appraisal of the growth potential for telecommunications in Canada. We doubt very much that the Trans-Canada Telephone organization can be unaware of studies in this field particularly since we understand they are contemplating the construction of a third transcontinental link within five years.

Mr. BENEDICKSON: Has the president knowledge of government business given to the new line in relation to the business given in the past, perhaps, to the Bell, the original microwave system? I think those figures come out in the public accounts.

Mr. GORDON: That would be on a competitive basis, of course; both systems would bid for the business, and whichever offered the better bid, would get it.

Mr. BENEDICKSON: Has the cost of the requirements of the C.B.C. gone down, to your knowledge?

Mr. GORDON: You ask if the costs to C.B.C. over the years have gone down. I would say very materially, yes.

Mr. BENEDICKSON: Have you got some new contracts as a result of the setting up of this competitive system?

Mr. GORDON: If you are talking about the microwave system, it has not been built yet; it is just in the process of being built now and it will not be finished for two years, anyway.

Mr. BENEDICKSON: When is the Bell contract to expire, I mean the big one on television?

Mr. GORDON: There are several contracts. I do not have them in my mind now; but there are several contracts between ourselves, and the railway communications, the C.B.C., and with Bell. I would have to check my records to find out which is which. I should have said Trans-Canada Telephone.

Mr. FISHER: This large one with the Bell deals with some of the provincially owned telephone systems which are tied up in it.

Mr. GORDON: That is right.

Mr. FISHER: Have you received any communication from the Provincial Telephone Systems regarding this expansion by Canadian Pacific and Canadian National?

Mr. BALCER: Yes. Every member of the Trans-Canada Telephone Company has sent me a communication favouring the telephone position.

Mr. FISHER: In other words, against this move?

Mr. BALCER: Yes.

Mr. FISHER: But despite this, you felt it was necessary to go ahead?

Mr. BALCER: Yes, I felt that in the public interest permission should be given to the railways.

Mr. FOY: Mr. Gordon, I would like to ask you a question about something which I do not quite understand. Why is the Canadian National Railways interested in acquiring trucking companies, when according to the profit picture it would appear that it would add to the deficit? For instance, I notice here in the report on page 12 where with approximately an investment of \$15 million there is a profit of \$131,000, and it would appear that it could show a deficit in the future, and if so in comparing any one of the trucking companies with the year previous, you earned half a million dollars profit, but they would be paying corporation taxes on it in excess of \$131,000.

Mr. GORDON: Yes, that is a very good instance. The answer lies in many things, as most of these answers do. The fact is that we have not had a fair opportunity at all in using our trucking operations to anything like the extent we would like to use them. We have been tied up by court cases and before the Province of Quebec Transportation Board, where protests have been made by the highway truckers in regard to the enlargement or in regard to the licences to be secured for instance for Midland Superior, and also for Husband Transport. These cases have been hung up now for a very long time indeed, and we have not been able to get on with the merging of our trucking operations as we should do. Also, if you have read the subsequent paragraph in there, you will see that there are collateral benefits which will come to the railway with the operation of the various trucking lines.

But as I said before, the use of the truck is a means whereby we hope to be able to provide services which will get us business on the railways. We cannot compete for L.C.L. traffic on the basis any more of expecting people to go down to the station and get the stuff out of a boxcar. It has to be delivered. Remember that while we have a number of truck lines that we have bought, we also have a thousand or more of truckers with whom we have contracts to carry our goods.

Mr. FOY: Do I gather from what you have said that you are not going to continue to buy trucking companies?

Mr. GORDON: No, I would not say that. But we would only buy a trucking company where there was a specific situation where we thought there was traffic potential for us which would fit in with our needs in such a way that we could make an individual purchase. But we are not in the market to buy everything; far from it.

Mr. FOY: A member of the committee pointed out there was quite a fear among trucking firms and you refuted this by saying you are not going into unfair competition and run them off the road by lower rates.

Mr. GORDON: I can say quite specifically that in my opinion the entry of the railway into the trucking business has improved the ethics of the trucking companies to the point that it is a much healthier business than it was. We do not engage in rate cutting and we do not engage in practices which are not ethical. We conduct a clean first-class operation in terms of trucking and obey all the laws of the country in connection with the operation of the trucks. We

attorn to the jurisdiction of the provinces and obey all the laws in respect of load limits and everything. So the railways have pursued a standard of operation that will certainly improve the general organization of the trucking industry in this country. I think the better trucking operators will be the first to admit that.

Mr. FISHER: Who?

Mr. GORDON: The high class operators would be the first to admit it.

Mr. FOY: I am told that the truckers are not afraid of the railways if it is going to be fair competition. They do not mind competition at all so long as it is fair competition.

Mr. McDONALD (*Hamilton South*): Would you mind, Mr. Gordon, explaining what you mean by high class competition? Could you give us an example of what you feel is high class and low class?

Mr. GORDON: I would say a well managed trucking organization that adheres to all the rules of the game in terms of licence requirements, and so on, and does not engage in unfair rate cutting and practices of an unethical character. I would call that a high class company.

Mr. McDONALD (*Hamilton South*): Do you have some knowledge that many trucking companies do not have ethical views?

Mr. GORDON: Yes. I will say yes. I am advised to say no, but I will say yes.

Mr. McDONALD (*Hamilton South*): Later on when we deal with highway services we might point out the vice versa.

Mr. SMITH (*Calgary South*): You are not really suggesting that your entry into the trucking business has generally met with approval by the trucking industry?

Mr. GORDON: No.

Mr. SMITH (*Calgary South*): Or that the entry has been in any way beneficial to them?

Mr. GORDON: I would say it has been beneficial to them in terms of raising the ethics of the business; that is always beneficial. On this point I made a statement to you, Mr. Foy, that we do not cut rates. This is an extract from a letter from our vice-president of highway services, Mr. Gaffney. I asked him to write me this letter. He says:

This will confirm my oral statement to you that in February 1961 I issued positive instructions to all of the truck companies owned by C.N.T.L. that rates filed with provincial regulatory authorities or with the various tariff bureaux must be maintained. These instructions also stated that under no circumstances would any of our acquired truck lines initiate rate reductions. If, however, rate reductions are necessary to meet rates reduced by other motor carriers, this may be done provided each such rate is first carefully analyzed to make sure that it covers all expenses, plus a profit, before it is put into effect. I also instructed that under no set of circumstances will the truck lines operated by C.N.T.L. indulge in unfair competition or in unfair competitive practices and that if any instance of such was brought to my attention, or any rate cut was initiated by any of our truck lines, the person or persons responsible would be dismissed from our organization.

I must add that I know of no instance where there has been any violation of these instructions.

Mr. FISHER: It is adjournment time. Could we have Mr. Gaffney here when we reach the highway services?

Mr. GORDON: I thought we had spent all afternoon on that.

Mr. FISHER: We have not gone into the details.

The CHAIRMAN: Are we passing this item?

Mr. FISHER: I want to know whether or not Mr. Gaffney is available.

The CHAIRMAN: Just a minute, gentlemen.

Mr. FOY: Yes, we want a quorum.

The CHAIRMAN: Although I do not know the reason why you want this man, the committee would have to decide whether or not to send for him. I think that the president of the railway and his staff here have demonstrated their competency in answering questions. However, it is a matter for the committee to decide whether or not they are going to send for additional witnesses in addition to the witnesses we have here. The president and vice-president are both here. But, if the committee decides there is someone else who can answer more competently than these two gentlemen we would have to take a vote on it.

Mr. FISHER: We have not a quorum now, Mr. Chairman.

The CHAIRMAN: I think we have.

Mr. FOY: Could I just finish my question?

The CHAIRMAN: Mr. Carter, would you come back in order that we may maintain a quorum.

Mr. FOY: I suppose the trucking industry has Mr. Gaffney's statement.

Mr. GORDON: This went out to Mr. Gaffney's own staff.

Mr. FOY: It might be advisable to notify the Canadian trucking industry.

Mr. GORDON: It is on the record now, and that is why I put it there.

Mr. FISHER: I would suggest, Mr. Chairman, that we make our decision at 8 o'clock. My reason in requesting Mr. Gaffney is that he was before the Quebec Transportation Commission. Mr. Gaffney was a witness for the railway, and I went through the transcript of evidence—

Mr. GORDON: So was I.

Mr. FISHER: As I say, I went through the transcript of evidence and, in several cases where details were involved, Mr. Gordon turned it over to Mr. Gaffney, as I remember, and I assume the same thing might come up here. I think it would be advantageous to have Mr. Gaffney present.

Mr. BALCER: Did this enquiry before the Quebec provincial board occur in 1961?

Mr. FISHER: Yes.

Mr. BALCER: Or in 1962?

Mr. FISHER: In 1961, and it related to Midland-Superior and Husband and some of the members of the committee are interested in this.

Mr. SMITH (*Simcoe North*): Mr. Chairman, we might leave it until 8 o'clock.

I move that we adjourn.

Mr. McDONALD (*Hamilton South*): I second the motion.

Mr. FISHER: Mr. Chairman, there is going to be a vote in the house tonight and I just want it clear that when the bell rings we clear out of here.

The CHAIRMAN: If it does not ring what do you do? If it is a vote in the committee it does not ring.

Mr. FISHER: No; it is in the house.

EVENING SITTING

TUESDAY, November 20, 1962.

The CHAIRMAN: Gentlemen, I observe a quorum. We are still considering the first item, fixed revenues. I think you will all agree that I have allowed you a great deal of latitude, and I observe that you have covered the whole spectrum of this report. I should like to suggest that we perhaps strive for more orderly progress by disposing of this report item by item. Perhaps, as Mr. Chevrier suggested, by dealing with so many items included in this report at the beginning we will make more progress in the long run.

Mr. FOY: Mr. Chairman, I think we have covered a good deal of this report. We have already been considering the highway services item.

The CHAIRMAN: I am very happy to hear you express that view, and I hope that we have indeed made some progress.

I wonder whether we might now dispose of the first item and move in an orderly fashion to the remaining items, or do you wish to continue to ramble on as we have been doing?

Mr. FISHER: I do not want to necessarily stay with a consideration of the first item but just before we adjourned at 5.30 I made the suggestion that when we were considering the highway services item we should ask Mr. Gaffney to appear before us to assist the president.

The CHAIRMAN: You may ask or suggest whatever you like in respect of highway services.

Mr. FISHER: Yes, but I should like to know whether Mr. Gaffney, who I understand is vice president of highway services, will be available.

The CHAIRMAN: That is a matter for the committee to decide. We have the president of the C.N.R. before us, and it seems from my experience with the proceedings of committees that the president is well capable of answering questions fully. I notice that he has several assistants with him here upon whom he may call for assistance.

Mr. FISHER: That is hardly a consistent procedure, Mr. Chairman.

Mr. SMITH (*Simcoe North*): Mr. Chairman, it seems to me that Mr. Fisher is asking us to make a decision in regard to an abstract proposition. We have not reached our consideration of the highway services item as yet. We do not know whether Mr. Gordon's answers to questions in respect of the highway services item will be satisfactory or not and it seems to me that the time to make a decision in this regard upon the merits of such a request is at that time when we are considering that item. If we are faced with a problem at that time we should deal with it then, but to deal with it at this stage is to deal with a purely abstract proposition.

Mr. FISHER: It is not quite so abstract an item as you wish to make out.

Mr. FOY: Mr. Chairman, may I ask if Mr. Gaffney is in Ottawa?

Mr. GORDON: No, Mr. Gaffney is in Montreal at the present time.

Mr. FOY: If we do reach our consideration of the highway services item to-night it will be rather difficult to get him here.

Mr. FISHER: Mr. Chairman, my point here is that last year we had the whole kit and caboodle here. We had about three times as many witnesses before us and I thought that the C.N.R. officials would be interested in having someone before us who was able to give us information in detail about trucking developments in which the C.N.R. is involved. If there is an objection to my suggestion I am quite willing to let it rest in abeyance and we will put our

questions to Mr. Gordon. I assume our questions would be directed to Mr. Gordon at any rate but I thought he would like the man in charge of highway services to assist him.

The CHAIRMAN: We may not have the whole kit and caboodle before us, but we have certainly got the caboodle here. It seems to me that until we find that Mr. Gordon and his staff are unable to answer questions we should not send out for someone else. However, I am just your Chairman and it is up to you as a committee to decide.

I sometimes wonder how Mr. Gordon and his staff are able to answer all the questions in detail which they are called upon to answer, but I certainly think it would be the wrong approach to send for someone else until such time as we find that these individuals are unable to supply us with the information.

At any rate I think we are considering something far removed from the accounts of the C.N.R. and those other things included in our terms of reference. I suggest that we have strayed far afield. Until Mr. Gordon and his staff manifest an incapacity to answer the questions asked, which they have not done as yet, we should consider proceeding as we have been proceeding.

Mr. FOY: Mr. Chairman, I would suggest that Mr. Gordon and his staff have done a very good job up to this point.

Mr. FISHER: That is a very nice statement.

Mr. RIDEOUT: What are we considering now, Mr. Chairman?

The CHAIRMAN: Just before you arrived, Mr. Rideout, Mr. Fisher suggested that we send out for another witness.

Mr. FISHER: I did not suggest that we send out for other witnesses, Mr. Chairman, I suggested that it would probably be to our advantage if we had Mr. Gaffney here when we were considering the highway services item. I have several questions I should like to ask of Mr. Gaffney with regard to evidence which he gave before a provincial transportation commission in respect of several of the operations which the Canadian National Railways has taken over. If the president of the railway feels that he is in a position to answer questions of this type that will suit my convenience.

Mr. RIDEOUT: I agree, Mr. Chairman, that Mr. Gordon has done a tremendous job. He has several assistants around him and I see no reason why Mr. Gordon should delegate the job of answering questions to someone else until he decides it is necessary.

Mr. McDONALD (*Hamilton South*): This involves a question for Mr. Gordon to decide upon.

Mr. RIDEOUT: Mr. Chairman, are we considering the operation side of revenue?

The CHAIRMAN: We have been dealing with the financial review but have gone quite far afield. I should like to see if we can follow a little more orderly pattern and pass as soon as possible the first item so that we can proceed to the next. After all, we have several items including organization, data processing, headquarters building, corporate structure, freight services, highway services, personnel and labour relations and telecommunications as well as others, all of which we have been dealing with. Perhaps, as Mr. Chevrier has suggested, we are making progress by dealing at length with these items at the outset, enabling us to deal much more briefly with the individual items as we come to them.

Mr. RIDEOUT: Mr. Chairman, I should like to ask a question or two in regard to the operating expenses item.

The CHAIRMAN: Before you proceed with your questions, I should like to suggest that we follow a more orderly procedure. I do not wish to restrain the

discussion, but I should like to follow the procedure of dealing with questions in respect of one item, then passing that item and proceeding to the next. In this manner I feel we will make more progress.

Mr. RIDEOUT: Mr. Chairman, I should like to ask a question in regard to operating expenses. I believe that is the next item on the agenda. I should like to ask how much the operating budget was cut for the ensuing year.

The CHAIRMAN: That is a reasonable question in respect to that item, I believe.

Mr. GORDON: What is the question?

Mr. RIDEOUT: I am wondering how much the operating budget was cut for the ensuing year?

Mr. GORDON: I do not understand the question.

Mr. RIDEOUT: I shall be frank about this. I understand that in respect of the Atlantic region the operating budget has been cut by over \$3 millions.

Mr. GORDON: Your understanding is completely incorrect. I have the budget here. It has not yet been presented. The 1962 operating budget, which should have been dealt with last March and which I will be presenting later, will show that by and large we will be within a few hundred thousands of dollars of our forecast.

Mr. RIDEOUT: The operating budget for the Atlantic region has not been cut at all?

Mr. GORDON: I do not know what you mean by that.

Mr. RIDEOUT: I mean, Mr. Chairman, that Mr. Demcoe has said to many people from Moncton that they must cut back expenses, and those expenses would amount to \$3 millions.

Mr. GORDON: There are no authoritative sources in this railway company apart from the chairman and president. Let us be clear about that. Donald Gordon is the only person that can speak of policy in connection with the Canadian National Railways as president and chairman of the board. If you go to other people for this type of information all you will receive is a lot of misapprehension, gossip and rumour which does not amount to anything.

Mr. BENIDICKSON: How many vice presidents have you got?

Mr. GORDON: They are all named on that list, but they do not initiate policy for the railroad.

Mr. BENIDICKSON: Not even in their own regions?

Mr. GORDON: No, not in respect of policy.

Let me deal with Mr. Rideout's question here.

I have here in front of me the official presentation which covers the operating budget of the railways. This is the only official document. It covers the total budget for the C.N.R. and is made up—as I will tell you if I get to it—of items on which we based our forecast. When you talk about cuts and additions or anything else, it has no meaning at all.

Mr. RIDEOUT: Do you not ask the vice president or his staff to submit his budget?

Mr. GORDON: I would like to talk about the budget when the time comes to talk about the budget. The budget is a complex matter and I have a lot of statements to make about it, but we cannot deal with it unless we get to the budget. When I come to the capital and operating budget, I will be happy to tell you in detail how the budget is made up.

Mr. RIDEOUT: We are on operating expenses, are we not?

Mr. GORDON: If you want to deal with the budget, I will deal with it.

Mr. SMITH (*Simcoe North*): There is a little misunderstanding here. We will deal with next year's budget in a separate item after we have dealt with the past year's report. Only some of the questions that are coming now are questions that really deal with the budget as Mr. Gordon will present it after we have dealt with the past year's report.

Mr. FISHER: Could I ask the Minister of Transport whether, when the austerity measures were introduced, any request went from the government to the C.N.R. to make adjustments in its capital forecast in relation to these measures? I know that a request such as this went to another crown corporation, the C.B.C.

Mr. BALCER: What is your definition of the word "austerity"?

Mr. FISHER: Let us put it this way: the C.B.C. was requested to pare its budget, and according to the chairman of its board it did so by some \$5 million. The budget was somewhere in the neighbourhood of \$80 million. Did a similar request go from you to the C.N.R.?

Mr. BALCER: No.

Mr. FISHER: Why?

Mr. BALCER: Because we felt that the C.N.R. is rendering a public service and because we have full confidence in the judgment of the management of the C.N.R. They have always endeavoured to save in every area that is possible, and the efforts that they put into it in the past were good enough.

Mr. FISHER: I could speak on the C.B.C. now, but I will not.

Could I turn to this operating expense section and ask several questions in relation to it? The first one is the very last item:

Equipment rentals increased by \$0.5 million due to a decrease in the use of Canadian National equipment by United States railroads.

That is ambiguous to me. Could I have an explanation of it?

Mr. GORDON: Do you have the figures, Mr. Toole?

Mr. TOOLE: The half million dollars here relate to the equipment rentals of the railway from the United States lines, equipment coming from the United States and vice versa, and with Canadian lines. In the year 1961, there were fewer freight cars on which rents were received from foreign lines than there had been in the year 1960. Consequently, there was a small increase in the rents paid on cars to foreign lines and to private lines in Canada. The net is the \$500,000 which you see in the report.

Mr. FISHER: Have you a graphic presentation of this curve regarding:

Train and yard operating costs per gross ton mile continued to decline, reflecting benefits from dieselization, centralized traffic control and improved yards facilities.

Have you a production of that as to what it is going to mean in the next few years?

Mr. GORDON: What item are you referring to?

Mr. FISHER: It is right at the bottom of page 4. What I am interested in is that you made a remark this afternoon that would indicate that in the final analyses it would be about five years before you would be able to really judge the advantages that had come from your program, particularly relating to yard facilities. I am wondering whether you predict a continuing decline for five years, and then whether it bottoms or whether it begins to move the other way.

Mr. GORDON: I said that it might be three to five years before we could see the actual benefits of these hump yards that we were referring to at the time for the reason that the hump yards—there are five of them—represent a chain of activity. What we did say here was that the train and yard operating

costs per gross ton mile continued to decline, and we attribute that in part to the effect of dieselization and centralized traffic control and improved yard facilities. That is a statement of fact. We did have a chart on it at one time.

Mr. LEWIS: What we are asking, Mr. Gordon, is whether you predicted future savings in this field.

Mr. GORDON: Yes, we are working on it.

Mr. LEWIS: And what degree of those savings in your prediction may it be? Can we have an answer to that, Mr. Chairman?

Mr. GORDON: I am wondering how best to answer it. It is not an easy question to answer because it calls for a forecast which involves the operating costs referred to in this report.

The CHAIRMAN: After all we are here to discuss the accounts and bills and what is being passed, rather than to forecast a long range policy.

Mr. LEWIS: I suppose you learn one from the other.

The CHAIRMAN: Probably you do, but I would like to follow the term of reference as much as I can.

Mr. FISHER: If a graph is not available, I would like to come back to the equipment rental part of it. Has it been the practice of the C.N.R. to rent hopper cars?

Mr. GORDON: Only in case of need.

Mr. RIDEOUT: Is there a shortage?

Mr. GORDON: No.

Mr. FISHER: I want to bring that up later when we get to branch lines.

Mr. GORDON: We supply our traffic with cars.

I am sorry if I seem a bit hoarse. You may have noticed that I have some trouble in my throat. The doctors call it a windpipe flu. It catches me now and then, but do not pay any attention to it. It may display a harshness to the committee, so do not be surprised if my usual docility is not noticeable. It has to do with the windpipe flu. If my throat chokes up it is because I have a little irritation. It is not serious but it does interfere with my speaking voice. I hope I will not break down and cry, Mr. Lewis.

What were we talking about?

Mr. FISHER: Hopper cars.

Mr. GORDON: Yes, you mentioned hopper cars. We, in the C.N.R. stand ready at any time to provide equipment to customers in accordance with their needs. I would be very happy to discuss that subject with you in terms of any specific instances you may have in mind.

Mr. LEWIS: When I was reading the report before coming down to the committee, I noticed you have 23,904 gondola and hopper cars. Is that an increase over the previous year?

Mr. GORDON: I would think it would be.

The CHAIRMAN: Where is that?

Mr. LEWIS: Way at the back of the report, on page 29. You are talking about equipment and I am giving you a figure that is in there.

The CHAIRMAN: I would like to get on to page 4 or 5 before we get on to page 29, if we can.

Mr. LEWIS: It seems to be a decrease over last year.

Mr. RIDEOUT: We should have some comparison regarding the cost per car of movement to the hump yard in one specific city as against another.

Mr. GORDON: I am still trying to give an answer to Mr. Lewis. Mr. Demcoe, vice president of transportation and maintenance, will speak to that.

Mr. DEMCOE: In the inventory, on December 31, 1960, there were 7287 hopper cars, and on December 31, 1961, there were 7170.

There was a decrease there of 117 cars.

Mr. FISHER: A question which would be relevant later on is whether you would be able to buy equipment or acquire more hopper cars?

Mr. GORDON: Yes, we are always able to service our customers in accordance with their needs. I will be glad to discuss that with you.

Mr. RIDEOUT: Have you a breakdown which indicates the cost of the removal of cars from a terminal which is a hump yard terminal and the cost of removal of cars from one which is not a hump yard terminal? Do you have a breakdown on that? You must have a comparison of before and after.

The CHAIRMAN: That will come under operations. Are you on operations now?

Mr. RIDEOUT: No, on operating revenue.

Mr. GORDON: Your question is what is the cost of humping a car or passing a car through an ordinary yard as compared to a hump yard. Is that it?

Mr. RIDEOUT: Yes.

Mr. GORDON: I wonder whether Mr. Demcoe would answer that question because it is getting into something which might take a while to explain. The handling of cars through an ordinary yard as compared to a hump yard are two completely different things. I am blessed if I know how we can analyse a question of this kind. But Mr. Demcoe is vice president of transportation and he will try to do it. This is a detail which I think is beyond me.

Mr. DEMCOE: Mr. Rideout, were you speaking about Moncton?

Mr. RIDEOUT: About anywhere.

Mr. DEMCOE: Actually, there has been a decrease of cost in handling cars in yards; and by comparing it with the old flat yards, such as at Montreal with the hump yards, it is cheaper under the new system.

Mr. RIDEOUT: What is the difference?

Mr. DEMCOE: At Moncton there is a difference of about 40 cents a car.

Mr. LEWIS: That is mainly due to a reduction in the labour power.

Mr. DEMCOE: It is out of pocket cost requiring less switching.

Mr. RIDEOUT: Does it include capital outlay?

Mr. DEMCOE: No, it is purely out-of-pocket cost.

Mr. GORDON: When we embarked on a capital outlay in terms of the building of hump yards, we took into account all the mechanics which were involved in going into hump yard operations, and we spent a lot of money on it. This was done for the purpose that the net result of our end operation would be much more efficient through hump yard operation than would have been possible by the flat switching operation. But you would have to go into a detailed analysis which would take not hours but days or months. All I can tell you is that in our submission, with our investigation, when we decided upon capital expenditures on hump yards, it showed conclusively that the operation would save us money, and in addition would provide much better service at that point over a relatively short period of time, and that we would more than recover our capital costs. This is a combination of not only actual costs of switching but also a combination of switching and giving better service.

I am not too old to remember in the railway; I am only 12 years old in the railway, but I can remember when we lost cars in the yard for days, and could not find them. You remember those days too. But now we find ourselves in

the position whereby, with the use of electronic equipment and the use of all the other arts and things which go into the operation of a hump yard, we can tell a customer within a matter of minutes the whereabouts of his particular car.

When I myself was in the Moncton hump yard last time I was sitting by the telephone while a girl got in a call, and she was able to tell four successive callers on the telephone where the car was at any point in Canada, and that is all part of the system.

Mr. RIDEOUT: It may be that they knew you were coming.

Mr. GORDON: No, they did not know. That is a sort of nasty remark that is quite uncalled for. The system is not adjusted because they know I am coming. Let there be no mistake about that. Even the system is not clever enough for that; it operates whether I go or not. It operates on the basis of dealing with the customer minute by minute, second by second. They can't just do that to suit me. We spent money for the purpose of giving service and improving the competition position of the railways. So my flat answer to the inquiry is that these hump yards have produced savings in actual operation, plus factors which improve our competitive position to the point where we are able to hold the business. And I would add one more thing; I have detected all through the day something which is beginning to get under my skin, I am sorry to say.

All the efforts which are being made by management in terms of better facilities, be they hump yards, be they going into the trucking business, be they anything at all, which we have discussed—all these efforts are made for the purpose of enlarging traffic and getting the best position for the Canadian National Railways, and that, in turn, has a definite meaning in regard to employment.

We are trying to make the Canadian National Railways a larger field for employment for Canadian National Railways employees; and everybody who proceeds to criticize or to indicate that we should not be doing this or doing that is really saying to me that we should get out of the business and reduce employment on the Canadian National Railways. But we are not going to get employment figures on the Canadian National Railways up until we go into the trucking business and get our trucks operating so that we are able to enlarge the amount of traffic that we are able to handle.

Every time a question is raised along the lines that we should not be doing this or that, it is a suggestion that we should be reducing employment.

Mr. McDONALD (*Hamilton*): Are we to discuss trucking when we come to highway services or now?

The CHAIRMAN: On both occasions, I expect.

Mr. McDONALD (*Hamilton*): I think we should agree after such a general discussion as we had this morning and afternoon, that we should take this report up item by item.

The CHAIRMAN: I think so too.

Mr. LEWIS: I suppose that the savings of the hump yard, like the savings in every other mechanization, depend on the amount of traffic, and that the savings per car would be considerably greater if the traffic is greater, even if the cars go out of the yard unused. You are not dealing with savings that are a static comparison.

Mr. GORDON: It depends on our judgment in estimating the traffic, undoubtedly. I am not saying that if we have over-built the Moncton yard—and I do not think we have—but if we have, then the amount of savings relative to the unit of traffic would be less than we have got; but we have tried to make up our judgment on the basis of building this hump yard or marshalling

yard, with the purpose of making the best possible handling of cars. Yet it has been very expensive. I have cried over the cost of these hump yards more than once. But the cost is there for a purpose, and the purpose is to give the railway a better means of handling traffic; and our estimate is more than a guess, it is a carefully analyzed product. If we have not erred, or if our judgment is good, then the unit cost of passing a car through the hump yard would be much less than we have had under the flat system. Are you in agreement, Mr. Demcoe?

Mr. DEMCOE: Yes, I agree; and I would also like to make the point that although there may be times when it takes us longer to get a particular train through a particular hump yard, yet the overall time, let us say, from Toronto or Hamilton until the car eventually gets to Halifax or Sydney is reduced, because they would have to do less switching in order to block the cars, at, let us say, Toronto or Montreal. So it is through this difference of taking them into Moncton and switching them out that we would save on it.

Mr. RIDEOUT: You will agree that 406 is longer in Moncton now than under the old system.

Mr. DEMCOE: Because the train now is a run of the mill train; whereas formerly it was blocked. Therefore, what we have to do is take off the Saint John block and continue on to Truro and Halifax.

Mr. RIDEOUT: Someone told me I would have to take a pension before this thing is through. Perhaps we should turn to pensions.

Mr. GORDON: I am just as anxious as anyone to determine whether or not our estimates are correct. Mr. Vaughan has just handed me a report. I am on these fellows' backs as much as anybody to determine whether or not the estimates are working out. This is a brief statement which shows that in Montreal the savings in respect of the hump yard approximate \$2 million annually which is substantially in excess of the estimate. In the Moncton yard, on the basis of the January 1962 operation, it would look like economies at an annual rate of well over \$1 million. This is an indication that the decision made in going ahead with this capital expenditure is working out. We hope that with all these things together we can show a substantial improvement in our cost of handling in these yards.

Mr. BADANAI: Are any of these employees displaced as a result of the establishment of these yards?

Mr. GORDON: That is difficult to answer. When you put in a new technological device such as an electronic hump yard there is bound to be a displacement of employees of one type, but an increase by another type. You will find the ordinary run of labour tends to get displaced, but you will find at the same time that you have to employ more skilled men in terms of electricians or maintainers who can look after signals and so on. But I say at once that the net effect of these improvements in respect of this technology is to reduce staff. That is demonstrated in our report. It is the only way we can obtain savings.

Mr. BADANAI: What will be the total expenditure in respect of these yards?

Mr. GORDON: The total estimated cost for four hump yards which we either have in place or in the process of completion totals \$102,759,000. That includes not only the yards themselves but also the necessary buildings such as diesel repair shops, and so on. The summary of these is that Moncton, Montreal, Winnipeg and Toronto total a little over \$102 million.

Mr. LEWIS: And your estimated savings per year?

Mr. BADANAI: Are these financed through debentures?

Mr. GORDON: You will find that when we deal with the capital budget for 1962 a little later on. Nine months have already gone by. Each one of these budgets sets forth in detail what the capital expenditures are. These budgets are authorized and come before parliament in the form of the finance and guarantee act.

Mr. LEWIS: May I go back to your answer when you said there was \$100 million odd for these four yards. What is the estimated savings once the yards are in operation for one year?

Mr. GORDON: I would have to have that divided here. We may have it.

Mr. VAUGHAN: I do not think we have the economics of each one with us.

Mr. GORDON: I would have to check back.

Mr. LEWIS: Perhaps you would have it for us tomorrow. If your estimated savings per year are X million dollars, it would give you an idea in a number of years that your capital outlay is recovered.

Mr. GORDON: We have all these. Remember these yards have progressed at different stages. They have been going on for the last ten years.

Mr. PUGH: I take it that these yards are built to take care of the needs for a few years to come.

Mr. GORDON: Yes, very much so. We have included a growth factor. In fact, one of our difficulties is that we are projecting into these yards quite a few years ahead and we will have to carry for some time a number of them bigger than we need them at present. That arises out of experience. From everything I have seen in the railway so far we have always built too small without forecasting in respect of the needs of Canada for the future. These yards will live for a long time. Most of them are built on the basis of being adequate to meet the needs for a period of between 25 and 50 years.

Mr. PUGH: Part of the capital expenditure now would be for future needs.

Mr. GORDON: Yes. I have been asked many times why it is that we need to have such a tremendous yard in Montreal in comparison to the yards you might see in the United States. You must remember that in Canada we have two large railroads. Everything coming into Montreal comes in by these two roads. In Chicago, for instance, you will find you are dealing with 30 or 35 railroads, each one of which has its own individual yard. We will get the benefits of the concentration which arises out of the fact that we have only two railroads coming into Montreal. It is a benefit; but it also means we must build a much larger yard.

Mr. FISHER: I have two questions in relation to this. First of all, in building the three yards that were in a more advanced stage than the Toronto yard, have you been able to make any consequent reductions in your expenditures for the Toronto yard? Secondly, is there any substance in the reports I have had that your program in Toronto has been much reduced from your original plans?

Mr. GORDON: Well, I would say that we have learned from each yard we have built; we have learned in terms of the technology of the yard and also in terms of the operations. Therefore Toronto which is now the last yard being built will be the beneficiary of all that we have learned with the three previous yards. Certainly Toronto, relatively, will not be as expensive, for example, as Moncton, which was the first. We are learning. I repeat that we do learn. Moreover in the field of technology there are new things coming out all the time. You mentioned Toronto. I do not know what the rumour or gossip may be. It is a fact, however, that we think, believe and hope that we can reduce the Toronto yard from its original cost. Part of that has arisen not only by reason of our experience in the other yards, but also by a better appreciation, as these other yards have gone into operation, that we do not need

to build as large facilities in Toronto as we originally had thought. We can concentrate in one of the other yards some of the facilities we thought we needed in Toronto. But it was always in "if-ish" position until we really got to the question as to what we decided to do in Toronto. Toronto is not as elaborate a project as we thought was necessary at the beginning and we have cut it about 15 or 20 per cent. Approximately \$12 million has come off the original estimated cost.

Mr. BENIDICKSON: What then would that amount to in cost? What do you figure your investment is in this new program?

Mr. GORDON: Well, it is not finish yet. We are in the middle of it. Our original estimate was something of the order of over \$43 million, but we think we will do better than that. However, as I say, we are not finished yet.

Mr. BENIDICKSON: To follow this up, in June, 1960, we had a resolution in the House of Commons under which the government was asked to make temporary loans up to \$100 million, and I think the resolution specified that this was to enable the work of construction and the completion of the Toronto project. How much of that has been wiped out?

Mr. GORDON: In point of fact, we never used the authority. I do not remember the figure; but I will take the figure of \$100 million, and we never used that authority as being especially applied to the Toronto project.

Mr. BENIDICKSON: But the resolution in the House of Commons referred to Toronto specifically as the project.

Mr. GORDON: It gave us authority, if we felt it was necessary, to finance separately in respect of the Toronto project. But, as it turned out, we decided it was not necessary to do that; we have put the cost of it into our railway annual budget, and we are financing it that way. At that time, when we estimated the \$100 million, it was very much a guess.

Mr. BENIDICKSON: It was called the construction and completion of certain railway terminal facilities, specifically for Toronto.

Mr. GORDON: Well, it covered not only the hump yard which we are talking about but a very uncertain item at that time which was represented by the access lines that had to be built in order to reach the yard. The access lines came from the east and west and we were uncertain how we would be able to get through the various properties at that time without heavy damage claims. But, as it turned out—touch wood—we have done very well; we have managed to make amicable agreements with most of the property owners and I would hope we will end up the project with very, very little in the way of damage claims or damage suits—and damage suits, as you know, are a very uncertain quantity at any time.

The CHAIRMAN: Shall we pass the first item.

Mr. LEWIS: No. We were talking about operating expenses.

Mr. ADDISON: What are the plans for the C.N.R. yards just north of the waterfront in Toronto?

Mr. GORDON: In Toronto?

Mr. ADDISON: Yes.

Mr. GORDON: Your guess is as good as mine is on that one. Some very ambitious projects have been talked about and some very interesting approaches have been made to us on it, but at the moment there is nothing definite; it is still in the talking stage—and you must remember also that in connection with that particular area we are in joint account with the Canadian Pacific Railway in relation to the station area and otherwise. As I say, it is still very much in the talking stage and there is nothing definite in connection with it.

Mr. BENIDICKSON: Of course, we are late in considering the 1962 program of the Canadian National Railways. Had it not been for dissolution and so on we normally would have dealt with this in the spring. But I looked at the report in 1960, under your signature, and when we reported then to the house it said this committee takes a serious view of the continuing deficit of the C.N.R. I figure that the budget calls for a deficit this year about the same as last year. Then the committee recommended that the government might consider the advisability of strengthening the board of directors of the C.N.R. by adding to its present membership. Could you tell me what has taken place in the last two years with respect to that?

The CHAIRMAN: Just a moment. As you will note, there were additional ones added.

Mr. LEWIS: You will find that at page 18 of the report Mr. Chairman.

Mr. BENIDICKSON: I did ask a question earlier about the number of vice-presidents and the president referred me to the report. I calculate there are 17 vice-presidents shown in the report which is before us, but how many were there say, ten years ago?

Mr. GORDON: Has anyone the report of ten years ago? That would show it. I am sorry; I would have to get the report of ten years ago as I do not happen to have one here.

Mr. BENIDICKSON: Well that can come later.

Did you, Mr. Gordon, find it possible to comply with my request of this morning about showing us in sort of a summary form the capital demands of the railways since the last write-off of capital ten years ago and the deficits in the ten years in the meantime.

Mr. GORDON: I imagine Mr. Toole has someone calculating this on the adding machine at the present time. We will have it for you tomorrow morning. Each one of these capital expenditures is detailed on each year's report and it is just a matter of getting someone to add them up. We will have it for you. (*See Appendix A.*)

Mr. LEWIS: I have some questions, Mr. Chairman, with regard to the wage costs. How is the \$22.3 million addition to the wage costs in 1961 arrived at?

The CHAIRMAN: If I may interrupt, Mr. Lewis, we spent almost an hour on that very subject this afternoon, and I think in fairness to everyone—

Mr. LEWIS: If I am asking a question which was not already asked perhaps you will permit me to ask it at this time. The fact that other questions were considered is no excuse for disallowing mine.

The CHAIRMAN: As I say, we spent an hour on that question this afternoon, and I think it is in the record.

Mr. GORDON: I will deal with it simply; the \$22.3 million increase in wage costs was brought into being by reason of the wage settlement at that time. It was the total increase in wages at that time. The only way you can take the hourly wages and arrive at a percentage is to find out the number of relative manhours involved—and we were talking about 1956 earlier. The manhours in 1956 were much greater because our freight revenue ton miles was greater.

Mr. LEWIS: There are two ways of arriving at the answer; you can take your total wage costs for 1960, the actual wage costs, not calculations, estimates or a guess, and subtract it from the total wage costs for 1961 and arrive at a figure of the difference, or you can make some estimate—and I want to know whether this \$22.3 million is the actual amount or some estimate.

Mr. GORDON: I will put it this way: in 1961 our total wage cost was \$456.6 million and if it had not been for the wage increase on operating account it would have been \$22.3 million less. Does that make it clear?

Mr. LEWIS: In one way. But, what was your total wage cost in 1960?

Mr. GORDON: It was \$448.3 million.

Mr. LEWIS: So that your actual difference in the two years was not \$22.3 million but the difference between \$448.2 million and \$456.6 million which is only \$8 million.

Mr. GORDON: That is not what the report says.

Mr. PUGH: This was all put on the record this afternoon.

Mr. SMITH (*Simcoe North*): Those exact questions were asked earlier.

Mr. GORDON: The report says clearly \$22.3 million addition to wage costs resulted from contract settlements with the unions.

Mr. LEWIS: The point is, of course, when you phrase it that way you, by implication, whether you intend it or not, place the responsibility on your employees for certain costs which actually did not occur—

Mr. GORDON: No; I am stating a fact.

Mr. LEWIS: —or did not take place.

Mr. GORDON: As a result of these contract settlements our operating wage costs were increased by \$22.3 million. If there had been a contract settlement we would not have expended the \$22.3 million.

Mr. LEWIS: What you are saying is if your employees had made no progress in their wages but remained at the same wage level, as before you would not have had to pay more in wages—and that is all you are saying.

Mr. GORDON: I am not saying that at all; I am merely stating the fact that our operating wage bill was increased by \$22.3 million as a result of the contract settlement. But I am not criticizing.

Mr. LEWIS: The wage bill was not increased by \$22.3 million; it was increased by \$8 million. It might have been less than the year before if the \$22.3 million had not been paid.

Mr. GORDON: That has no comparison to this. You would have to take the number of people involved, the workload involved and the manhours involved.

Mr. LEWIS: Exactly.

Mr. GORDON: All I am saying is that at the time we made the contract settlement, the existing employees at that time, as a result of that contract settlement, received \$22.3 million more in wages than they otherwise would have received.

Mr. FOY: Mr. Chairman, is there any reason for putting this information on the record a second time?

The CHAIRMAN: I do not think there is any reason for this, but in fairness to Mr. Lewis who was not here this afternoon, I might say that it is rather difficult to confine his questions too strictly. It is perhaps also unfair to the rest of the committee members to review all these details.

Mr. LEWIS: I was not here this afternoon, Mr. Chairman, and I shall not insist upon answers to questions which have already been asked and answered.

The CHAIRMAN: This information was all placed on the record this afternoon.

Mr. FOY: It was not our fault that you were not present this afternoon.

Mr. LEWIS: No, it was not your fault that I was not here, I appreciate that fact.

The CHAIRMAN: I do not think any member of this committee wishes to dispute figures provided by an organization which has worked for many months on this report.

Mr. FOY: We listened to this discussion for about an hour this afternoon.

Mr. FISHER: Just one moment. Let us not have a lot of monkeyshines about listening for an hour. The member for Lapointe (Mr. Gregoire) discussed this subject for about ten minutes.

The point Mr. Lewis is attempting to make is that the way this is shown in the report gives one the very clear impression that there has not been an increase in cost proportionate to the increase in wages.

The CHAIRMAN: Perhaps we did not discuss this subject for an hour, Mr. Fisher, but you spent so much of the committee's time yourself that you perhaps lost track of the passage of time.

Mr. FISHER: I have no excuse for taking up time at all, Mr. Chairman.

The CHAIRMAN: All I am suggesting is that this subject was dealt with before by the committee, and if the committee wishes to take up the subject again that is satisfactory. However, as Mr. Foy has just said, there are other members of this committee besides yourselves and they have a perfect right to object to the double usage of time in this regard.

Mr. LEWIS: Let me ask another question, Mr. Chairman, and if it has been asked and answered before I will not pursue it. I should like to ask Mr. Gordon if the portion of the expense dollar for 1961 which went to wages or employee compensation was larger or smaller than the year previous. I understand that it was in fact smaller than that portion which went to wages and compensation in 1960.

Mr. GORDON: I think there is a chart in this regard in the annual report.

Mr. LEWIS: Yes, there is a chart at page 8.

Mr. GORDON: Mr. Lewis, I am only interested in stating what are the facts, but what would be very helpful to me would be for you to tell me how you would have phrased this statement.

Mr. LEWIS: Mr. Chairman, I think what is important in my respectful opinion, and that which is more relevant for the people of Canada and this parliament to consider, is the fact that despite the improvement in the wages to the employees of the C.N.R. the actual increase in cost was only about \$8 millions in your wage bill, which conveys the impression that the management of the C.N.R. was wise enough, if you want me to put it that way and indeed I do so with pleasure, to introduce economies, whether by a reduction in staff, or the institution of a more economical operation, so that the full impact of what might have been an increase in the wage load was not felt by the C.N.R., and that in fact instead of \$22.3 millions, only \$8 million some odd were added to your wage figure over that figure for the year before. Surely that is the more significant fact than a statement in respect of the responsibility of the employees which, in my respectful submission, is not there.

Mr. GORDON: I assure you, Mr. Lewis, that the statement in the report was not intended to point a finger at any one. I thought we were merely stating the facts. In fact in the next sentence we have outlined the situation. That sentence states as follows:

Significant cost reductions were achieved in equipment maintenance due to greater efficiency and reduced work load in main shop repairs to locomotives and passenger cars.

After all, what you are saying is that we overtook part of the dollar increase by a productivity improvement.

Mr. LEWIS: Exactly.

Mr. GORDON: I admit that at once, and I thought I had said that. If I did not say that, then I say it now.

Mr. LEWIS: You have said it now.

Mr. GORDON: I thought I had said it in this report.

Mr. LEWIS: I did not understand that statement in that way, and I wanted to have it clear on the record.

Mr. GORDON: I do not promise to call you in when we are drafting the next report, but it might be helpful.

Mr. BENIDICKSON: Mr. Chairman, we are representatives of the taxpayers who are paying these days for a deficit of something of the order of \$67 millions as I read the statement here. We do not know much about the operations of a railroad and can only find out by directing questions to the officials before us to the best of our ability.

In this country we have a private railroad which sometimes can be used as a yardstick in connection with our attempt to understand the operation of the publicly owned C.N.R. We are dealing now with the 1961 results of the operations of the Canadian National Railways and in due time we will be considering the report for 1961. I take it that the deficit for the C.N.R. for 1961 was approximately the same as that for 1960. We all appreciate the fact that we become confused when we compare the Canadian Pacific Railway Company's reports because we are informed that the C.P.R. has certain assets that are non-railroad assets which bring in revenues, which sometimes makes it inappropriate to compare the two operations. However, I have before me an excerpt from the *Financial Post* of this year which states that railway revenues of the C.P.R. in respect of net rail earnings were up 11.8 per cent for 1961. This figure refers only to rail earnings, and it suggests that this amounted to \$37,650,000. Now, comparing 1960-61 figures in respect of the C.N.R. in this regard it would appear that the same increase is not to be found. I should like to ask what accounts for the difference between the C.P.R.'s increased earnings for 1961 as compared to the earnings of the C.N.R. for this same period of time.

Mr. GORDON: I cannot follow the figures you are referring to. I would have to examine them in order to understand what you are talking about.

Mr. BENIDICKSON: Yes. I am quoting from a press report in regard to the 1961 operations of the C.P.R. which segregates the earnings from non-rail operations, and states that the rail earnings were up 11.8 per cent. However, it is my understanding that the C.N.R. rail earnings are about the same for 1961 as compared to 1960.

Mr. GORDON: Yes, but when the C.P.R. uses that term "non-rail" I would want to have a very hard look at them. There could be a difference of opinion there.

Mr. BENIDICKSON: Yes.

Mr. GORDON: I do not recognize that figure. I am looking here at a comparison made of C.P.R. figures, and I do not recognize the figure you have referred to at all.

Mr. BENIDICKSON: I will leave the press clippings I have with you overnight, Mr. Gordon.

Mr. GORDON: I would be glad to look at them because there is nothing here in front of me to indicate that their percentage increase was better than ours.

The CHAIRMAN: Is there any question in regard to the first item, or shall we proceed to the next item?

Mr. FISHER: Mr. Chairman, are we now proceeding to the item headed "the System"?

The CHAIRMAN: We will proceed to the next item, The System.

Organization.

The transition to the new form of the System's management and administrative structure in Canada, comprising five regions subdivided into 18 management areas,—
and so on.

Mr. CHEVRIER: May I ask a question concerning the headquarters building in Montreal? I see under that item here on page 7 it is stated that you have moved from 22 separate locations in the downtown area to the new building which is adjacent to the C.N.R. station. What has happened to these 22 locations? I know that you have disposed of your former head office on McGill street. What has happened to the other 21?

Mr. GORDON: I have not got a complete statement on them. With some of them, we had arranged so that the lease ran out in order to synchronize the move into the new building. In every case we are trying to dispose of them. As you said, 360 McGill street, which is the main item, we managed to sell to the province of Quebec. Mr. Toole, do you know what the exact result is in regard to these various quarters which are available? They are all for rent. We are trying to dispose of all of them.

Mr. CHEVRIER: Have you employees in these 21 locations?

Mr. GORDON: They have all moved. The locations are vacant. If they have not been sub-rented, they are vacant.

Mr. VAUGHAN: We had some of them on lease, and the leases have expired.

Mr. CHEVRIER: I would like to ask a question or two in connection with the new office building. What is the position with reference to personnel; is it large enough to take care of all your personnel? Do you contemplate any expansion?

Mr. GORDON: It is large enough, and I would say that it provides a 6 to 8% factor for expansion. In other words, we have some room for expansion but not enough to warrant our letting or renting any of the space. We have rented space on the ground floor to one of the banks, and we have rented a couple of shops on the main floor for concessions in the shop area, but we have not got any space really that lends itself for rental. However, with a little snuggling up, I feel we have about 6 to 8 per cent more space than we actually need. That is really the margin for expansion.

Mr. CHEVRIER: Apart from the hygienic and more comfortable conditions for employees, are you able to say that there has been a substantial saving by the movement of these 22 locations to the head office building?

Mr. GORDON: Yes. I have been looking after that myself. We are still in the process of effecting those savings. We had some difficulties with some of the mechanical equipment. I did not mention it because it is a reflection on the manufacturer. However, the building is now functioning as it should and the result of that will be a definite saving in the number of employees with particular reference to the type of employees that represented messenger service and movement from one location to another where we had to keep employed a lot of runners to see to it that messages and files were carried backwards and forwards, and that sort of thing. So I cannot be definite because I have not the figures myself. All I can say is that I have seen enough of it to say that it is a substantial saving and that it justifies the erection of the building in terms of economics at the time it went forward.

Mr. CHEVRIER: Is the building, together with the other two in the square south of Dorchester street, the property of the C.N.R.?

Mr. GORDON: The headquarters building?

Mr. CHEVRIER: Together with the Queen Elizabeth hotel and the aviation building. Are they the property of the C.N.R.?

Mr. GORDON: Yes.

Mr. RIDEOUT: You did not rent it?

Mr. GORDON: No, we own the headquarters building and we occupy it.

Mr. RIDEOUT: Is it a good system?

Mr. GORDON: It is in this case.

Mr. CARTER: Can you give any estimate of the personnel that has been displaced by this electronic equipment?

Mr. GORDON: No, I do not think I can. If I went to the trouble of trying to pinpoint it, it would take quite a lot of examination. I do not think it is worth while, to tell you the truth. The main saving has been a saving in runner service that used to have to take place between the 22 different locations.

Mr. CARTER: Do you have electronic bookkeepers?

Mr. TOOLE: Yes. We are using several types of electronic equipment, some of which are very sophisticated and others at lower levels of the operation of a quite junior type such as the ordinary adding machine. Then we get into the I.B.M. 1401 and I.B.M. 7070. These pieces of equipment have caused shifts in the tasks.

Mr. GORDON: There is reference to it on page 6 of the report.

Mr. SMITH (*Calgary South*): Could you elaborate on the reply you gave a minute ago? I think you said that in the case of the C.N.R. building it was good business to own it rather than act as a lessor. I think it would be the experience of most businesses and corporations to sell the buildings and act as lessee. What is the basis of your argument that it is a good business?

Mr. GORDON: I said "in this instance". An argument could be made at any time that on the lease-back basis you could do a better job, but this is a very specialized type of building. It is a building built right in the station terminal and so it had to adjust, first of all, to the railway operations. For example, it has no basement. In fact, the word went around that the big penthouse at the top of the building was built for me. But if you go up there, you will find it is full of equipment, elevator machinery, air conditioning, and that sort of thing. It is not the kind of building that is readily adaptable for rental along the lines you mentioned. In Moncton there is a different case. We did arrange there for the promoter to come in. He built the building and we rented back a portion of it. We are discussing a similar proposition in Edmonton. My own view is, at this point anyway, that if we are in the position that we are likely to occupy the whole of the building, then I would hesitate as to whether or not it is better for us to do the whole job. But if we are going to occupy part of it, then I think we can make a better deal on the lease-back basis.

Mr. CHEVRIER: Would the fact that you are the owner of the land to be a consideration?

Mr. GORDON: That is part of what I mean. It is a specialized area.

The CHAIRMAN: Any other questions?

Mr. FISHER: Yes. What is your situation in Edmonton, Mr. Gordon? Have you offices in a number of buildings in Edmonton?

Mr. GORDON: Yes, we have at the moment. We have an advertisement which is appearing in the main papers stating that we would be interested in receiving propositions in regard to providing us with headquarters space in one building in Edmonton. In other words, we have not indicated that we

want to erect the building ourselves but we are prepared to collaborate with a promoter in the area. This is the advertisement under the heading "re-development of station property Edmonton, Alberta." It reads as follows:

Proposals are invited from development agencies for the leasing of Canadian National property at the head of 100 street in Edmonton, Alberta, comprising the area occupied by the present passenger station building and the ground in front of this building, on which the developing agency would erect and own a 25-storey office building conforming to the city of Edmonton civil centre development plan dated June 25, 1962.

Then we go on to say that we would be interested in leasing a portion of the building but we are not planning to build it ourselves.

Mr. McDONALD (*Hamilton South*): How much of the building did you contemplate leasing?

Mr. GORDON: That is a bargaining factor. We say that the Canadian National Railways would be interested in leasing some office space in any building erected by the developing agency on the site and also space for necessary railway passenger station facilities at the ground floor level. When we sit down to talk to anyone who is serious, we will be able to tell them what our plans are.

Mr. RIDEOUT: Have the extra 14 acres in Moncton been formally executed?

Mr. GORDON: I think there is a man by the name of Mr. Rideout who knows the answer to this question better than I do.

Mr. RIDEOUT: They tell me it has not been signed.

Mr. GORDON: I do not know. I will have to inquire. It was in the process of negotiation but I thought it was formalized.

Mr. RIDEOUT: I asked the minister yesterday in the house whether it was true or false that the building of the C.N.R. station has been cancelled in Moncton. If it has, or has not, what is the holdup?

Mr. GORDON: I do not know.

Mr. VAUGHAN: That is part of the development.

Mr. RIDEOUT: It has been hanging for seven or eight months.

Mr. VAUGHAN: There are some details that are being worked out. The contract for the station will be awarded by the developer.

Mr. RIDEOUT: The contract has been let. It is all signed up but there is no activity.

Mr. GORDON: That is for the development.

Mr. RIDEOUT: There seems to be something wrong with the railways. I wanted to get it clarified.

Mr. GORDON: Who tells you that?

Mr. RIDEOUT: Rudnikov told me.

Mr. GORDON: Would you refer him to me? I am not aware of anything that is not perfectly clear. Last time I talked to him he was happy with the situation. If there is any hold-up, I would be delighted to be informed of it so we could take the necessary action. But so far as I am aware, everything was going very well indeed.

Mr. CHEVRIER: If we are still on the question of the system, that brings in railway stations. What is the position of the Ottawa Union station? A great deal of comment has been made in connection with it in the press and elsewhere, and I think the committee would be interested to know what the present position is, and what the plans of the Canadian National Railways are, if there are any, and anything else you would like to tell us.

Mr. GORDON: Well, there is a lot of background to this. I do not know if there is much use in going into it. But the fact of the matter is that the government decided the Union station should be relocated in the Hurdman's Bridge area, and that was being done through the then Federal District Commission which is now known as the National Capital Commission. The station is being built out there, with the indication that the Union station will be completely vacated and turned over to the National Capital Commission.

Mr. CHEVRIER: When?

Mr. GORDON: I would have said a couple of years, but I do not see any date here. When is the move going to take place?

Mr. VAUGHAN: I do not know, but I understand the whole thing will be completed by 1967.

The CHAIRMAN: Before the centennial?

Mr. VAUGHAN: I think that was the overall intention, speaking from memory.

Mr. GORDON: There are several phases of this; there is freight as well as passenger. I am reading this memorandum to see if I can pick out a date.

Mr. VAUGHAN: Our people have been having discussions with General Clark on the implementation of the overall plan.

Mr. CHEVRIER: Is it the intention to move all the facilities to Hurdman's Bridge?

Mr. GORDON: It is my understanding that the facilities now located at the Union station are to be moved to the new location at Hurdman's Bridge. That was the decision taken at the time this announcement was made.

Mr. RIDEOUT: How could we negotiate something along that particular line? How could we arrive at that in Moncton?

Mr. GORDON: I do not know; the decision was not made by the Canadian National Railways.

Mr. CHEVRIER: This decision was made by the National Capital Commission.

Mr. GORDON: No, it was made by the government. According to my understanding an announcement was made in a press release from the office of the Prime Minister on October 31, 1959. The gist of it was the recommendation of the National Capital Commission for the relocation of the passenger terminal in the vicinity of Hurdman's Bridge has been approved, and that the government had asked the National Capital Commission to enter into discussions with both railways so as to complete the planning.

Mr. CHEVRIER: Was there an answer given to my question as to when the Union station would be completed, not the first phase of the plan?

The CHAIRMAN: I have not got the actual date here.

Mr. CHEVRIER: Could we be given that information?

Mr. GORDON: Yes, we will get it for you and tender it in the morning.

The CHAIRMAN: Are there any other questions on system?

Mr. CARTER: When you move to the new station, would you have to negotiate a new agreement between yourselves and the Canadian Pacific?

Mr. GORDON: That is all part of the arrangement; that agreement has been negotiated in regard to how the station will be shared.

Mr. CARTER: And as far as the operating of it?

Mr. GORDON: The Canadian Pacific, the Canadian National and National Capital Commission are involved, and negotiations are being carried on as to how the new location will be dealt with and how it will be operated, or rather what part will be operated by each railway. That has been worked out.

Mr. CARTER: You have a joint operating company now which operates the station?

Mr. GORDON: Yes, that is right.

Mr. CARTER: And you say that this joint company is working on it?

Mr. GORDON: Yes, it will be worked out roughly on the same basis as the previous operating arrangement.

Mr. CHEVRIER: Who owns the present real estate?

Mr. GORDON: At the Union station?

Mr. CHEVRIER: Yes.

Mr. GORDON: Oh, we never could decide who owns it.

Mr. CHEVRIER: Is it between the Canadian Pacific and yourself?

Mr. GORDON: No. It is between the Canadian National, the National Capital Commission, and the Department of Transport. The Canadian Pacific did not come into it.

Mr. CHEVRIER: How does the National Capital Commission come into it?

Mr. GORDON: They own a strip of the property, but the Department of Transport was the one mainly involved in it. You will remember when the New York Central Railway came into the area; the National Capital Commission took part of the property at that time.

Mr. CHEVRIER: There was an arrangement between the government and the Canadian National Railways.

Mr. GORDON: Generally speaking, but I cannot give you the details. However, the general principle is that we will be relocated at the new place in position without any cost to the railways.

Mr. CHEVRIER: Is the real estate turned over to the National Capital Commission?

Mr. GORDON: You mean the Union station?

Mr. CHEVRIER: Yes.

Mr. GORDON: Yes, they will become the owners of it.

Mr. FISHER: How much time and detail did the Glassco commission people who approached the Canadian National Railways devote to it?

Mr. GORDON: They made no investigation of the Canadian National Railways. They had a discussion with us about a number of factors, or administration matters which they wanted to get advice on, or guidance. But they did not make any examination of the Canadian National Railways along the lines that they did with the civil service. They came to us only for help.

Mr. FISHER: So we cannot look forward to any statement in their future reports dealing with the Canadian National Railways?

Mr. GORDON: No. They conducted no investigation of us.

Mr. LEWIS: Did they try?

Mr. GORDON: No. I had an interview with Mr. Glassco. He said he did not regard the Canadian National Railways as being included in his terms of reference. But he did ask me for some assistance. We lent him some staff, I think; and at all events we did go over with these people such things as filing systems, administration techniques in regard to capital budget, and so on. I was able to show him that our method of capital budgeting was the best in Canada because we have to come through this committee, and he agreed that it must be, in order to get through here.

Mr. McDONALD (*Hamilton*): The old oil! Grease it up!

Mr. FISHER: I would like to ask a question relative to the last paragraph under organization.

Studies were also advanced to develop new principles and methods for determining the revenue and profit of each region and area with a view to providing an improved basis for management decisions at those levels.

Would this mean that you would have the principle methods established so that you would be able to take an area such as represented by your area manager, let us say, at the Lakehead, and determine both the profit and costs proposition within that area?

Mr. GORDON: That is our objective. What we are talking about here is responsibility accounting; that is, an attempt to define each operating unit of the railway, both from the point of view of its obligations, and generally what the responsibility might be in this regard. But this is Mr. Toole's department and perhaps he might answer your question.

Mr. TOOLE: You have given a nice summary. In essence we are forming an organization structure which is now laid out in areas and regions. At the area level it is a business unit and responsibility accounting makes an attempt to allocate at that level the costs which belong to operating that level and assigning those costs to the managers who are responsible. At the same time we examine the revenues as they come to us, so that we might determine what revenues actually arise from this area; and when we have determined that, we will assign the costs to the traffic which is shown there in order to determine the profit, the revenue, and the origin.

Mr. FISHER: I think you can see how this would be interesting to us in regard to the bridge subsidy and the matter of its justice or equity. I was curious to know if you expected that you would have this finalized so that we would be able to be given a picture in relation to the traffic generated, which would give a region or area some idea as to its position.

Mr. GORDON: We put this in our report to indicate that we were trying to define under each one of these areas—trying to get a definition for the purpose of internal management, as to how these area units would be actually functioning both in terms of responsibility, and in terms of earning capacity. It is a very, very difficult matter. It is not something I think we would ever want to bring out publicly, because it would result in endless discussion. It is merely an internal tool. Take, for instance, the allocation of revenue. If a shipment originates in Halifax and ends up in Port Arthur, how can you determine revenue? Who was responsible for the sale? I could go on with endless variations of that. What we are trying to do is to see if we can identify through this type of accounting the meaning of the efforts put forward by the individual area.

Mr. FISHER: Will you be able to compare the productivity in the various areas?

Mr. GORDON: We will have to wait and see. That is what we are trying to do. I do not know. Mr. Toole has much more confidence in this than I have.

Mr. TOOLE: We have made quite some strides but have a long way to go yet.

Mr. FISHER: I am very interested in this concept in terms of our own region and, say, the Maritimes. In other words, you could present to the Board of Transport Commissioners a picture of a region and the traffic revenue cost situation in it.

Mr. GORDON: We are going to try.

Mr. FISHER: On the data processing, there is a long section in relation to the machines and computers. Do I take it that this now has been integrated into your operations or is it still in the experimental stage?

Mr. TOOLE: It is implemented in a number of phases. The greatest extent of the implementation at the time being is in the Atlantic region. It will take us some time to move across the country with the master plan of integration of data flow. We will not get the ultimate benefit from it until it has been implemented from coast to coast.

Mr. FISHER: What do you say this means in terms of reduction of jobs, say, for instance, cooks and such persons who I imagine are doing the work now. Will the impact be severe?

Mr. TOOLE: No. It is a question of getting better and more timely information as much as it is of getting as much economy as we can with it.

Mr. GORDON: And giving better service.

Mr. LEWIS: There is bound to be some reduction in the staff.

Mr. GORDON: Remember what I said earlier. Certainly there is bound to be an over-all reduction in the total staff. We cannot, however, at this stage pinpoint where that will take place, because we might very well eliminate a clerk but set up the need for a machine operator. We may eliminate the need for a man walking the track but set up the need for a signal maintainer with regard to centralized traffic control. There are newer skills being required and some of these skills will be acquired by retaining existing persons, in which case there is no reduction of staff; but in other cases we would have to go out and obtain skills. There is a general churning of the whole employee situation in the field now that must take place in order to get ourselves adjusted to the new meaning of railroading.

Mr. LEWIS: Do you have adequate retraining programs, or does this come in later?

Mr. GORDON: I can talk about that. It is dealt with later.

The CHAIRMAN: Is there anything further on this item?

Mr. FISHER: In respect of your corporate structure, I take it from this that you have a continuing program to simplify the railway's corporate structure?

Mr. GORDON: Yes.

Mr. FISHER: But at the same time you are adding and acquiring trucking companies, and I suppose that unsimplifies the corporate structure. Have you any plans in so far as these additions are concerned to bring them within the system? In the long range are you leaving them as separate corporate entities?

Mr. GORDON: I would not want to make any promise on that now. It is too new. We will deal with it when we have more experience. It is true that we have added about seven or eight companies in the form of truck companies, but they are all under one managerial control. The individual corporations are operating now, for operational purposes, licence purposes, and so on, and we have to wait until we have digested them. Our general aim will be to continue the simplified corporate structure.

Mr. CHEVRIER: Are these three companies, the Canadian National Rolling Stock Limited, Montreal Fruit and Produce Terminal Company Limited and the Yukon Telephone Company Ltd. separate corporate entities?

Mr. GORDON: They are all wholly owned subsidiaries.

Mr. CHEVRIER: What is the object of the Montreal Fruit and Produce Terminal Company Limited?

Mr. GORDON: It is pretty well finished. It is a means whereby when cars of fruit and so on are brought in from the United States there is an auction held in our facilities. We rent out space to various purveyors of fruit and

vegetables where an actual auction sale takes place. More recently this has been replaced in the north of Montreal. The new facility which has been opened up north of Montreal will probably mean that this Montreal Fruit and Produce Terminal Company Limited will be discontinued.

Mr. CHEVRIER: Is there a separate corporate entity for the Queen Elizabeth hotel or is it under the Canadian National hotels system?

Mr. GORDON: It is not incorporated as a separate company; no. It is included in the Canadian National Railway system.

Mr. CHEVRIER: Is there an expansion contemplated of the hotel for the international fair that is going to be held in Montreal in 1967?

Mr. GORDON: We have had under discussion for some time the feasibility of enlarging the hotel. We could enlarge the hotel in terms of the traffic we have there. The question mark, however, is whether we can enlarge it in such a way as to continue it as a separate entity.

Mr. CHEVRIER: If you did expand, in which direction would you do it?

Mr. GORDON: That is the big question mark. We could not expand it upward, because we built the hotel to the maximum extent of the foundation facilities as it is now. We could go east, we could go across the street, and maybe even south.

Mr. CHEVRIER: Across the street?

Mr. GORDON: Yes; across Dorchester on the north side. The whole complex there now, to all intents and purposes, is one complex, because we have underground passages with a walk running from one side to another.

Mr. CHEVRIER: You would really have two buildings.

Mr. GORDON: You could regard it as two buildings, but it would still be one hotel.

Mr. RIDEOUT: Your predecessor told me at one time that the Canadian National is out of the hotel business. That is not quite true.

Mr. GORDON: I am certainly not going to comment on what my predecessor may have said to you. I don't know. We are definitely in the hotel business.

Mr. RIDEOUT: You are ready to make capital outlays across Canada.

Mr. GORDON: Whenever it seems to be to our advantage. We do not have in mind the building of any new hotels.

Mr. CHEVRIER: Could I clear up the question of the expansion of the Queen Elizabeth? May I ask where the matter of the expansion or the extension stands at the moment?

Mr. GORDON: Well it stands in the discussion stage. We are discussing actively with the Hilton people whether or not we can see an expansion of the hotel which would be economically feasible.

Mr. CHEVRIER: And if it were extended would it be built by the C.N.R.?

Mr. GORDON: Not necessarily. It would be part of the deal.

Mr. CHEVRIER: But you own the Queen Elizabeth?

Mr. GORDON: Yes, we own the Queen Elizabeth, but I do not rule out that we could build a building otherwise. Anything is possible in that complex; we made several kinds of deals.

Mr. CHEVRIER: Are you able to tell us the number of rooms which is contemplated?

Mr. GORDON: No; it would depend, again, where it was built and under what circumstances. It is very tentative right now; it is under discussion.

The CHAIRMAN: Have you a question Mr. Addison?

Mr. ADDISON: Are there scholarships available for students attending university and is there financing assistance available for people with your organization who would like to further their studies in postgraduate courses?

Mr. GORDON: Well, we are jumping from this item Mr. Chairman. But, I will see if I can find it.

Mr. VAUGHAN: Do you mean scholarships supplied by the C.N.R.?

Mr. ADDISON: Yes, scholarships supported by the C.N.R.

Mr. VAUGHAN: Mr. Addison may be referring to the Athlone scholarships whereby people in the company get leave of absence—and I think these are held in England.

The CHAIRMAN: This really comes under "personnel".

Mr. GORDON: We do not have specific scholarships whereby we put up a sum of money for a university in terms of providing a bursary or anything of that kind, but we have assisted in different ways. The best way is to read the policy. This is our management policy which has been issued to our employees.

It is system policy to provide financial assistance to employees wishing to engage in evening correspondence or full time educational programmes which it is considered will increase their level of qualification for the work in which they are engaged or to which they may be assigned.

Such assistance takes the form of a reimbursement of 50% of tuition fees and is open to all employees who:

- (a) Have at least one year of continuous compensated service before starting an evening or correspondence course or at least two years continuous compensated service before starting a full time programme;
- (b) receive approval of the proposed course for purposes of financial assistance before commencing it;
- (c) successfully complete the course or an established unit thereof.

To qualify for financial assistance, a course of studies must be given by, or in association with, a recognized educational institution and must be directly related to the employee's present or prospective field of work.

Further, we have a wide measure of training programmes which are associated—and this is in another part of the report.

Mr. RIDEOUT: Would I fall in that category as a member of the House of Commons?

Mr. GORDON: I do not think your education is neglected in the House of Commons, is it?

Mr. McDONALD (*Hamilton South*): Not tonight.

Mr. GORDON: If you can show me it is neglected we might see what we can do about it.

The CHAIRMAN: Are there any further questions on operations?

Mr. LEWIS: We have just arrived at it, Mr. Chairman. It is wishful thinking on your part.

Mr. PUGH: In connection with these programmes could you tell me how many are taking advantage of this training—and I am referring to the first one you mentioned.

Mr. GORDON: I have not the figures available, but I understand it is quite well received.

Mr. VAUGHAN: I think there are 200 or 300 who have taken advantage of this.

Mr. GORDON: I might as well deal with this item because it is covered under this heading. I had a note here as to what we had in our policy to meet the demands for new skills and techniques which we foster from time to time and to the greatest extent possible by training or retraining these employees. This also serves to minimize the adverse effects on the work force which may result from mechanization and reorganization. The training courses provided have constantly been reviewed and added to, and new programmes have been instituted as the need arose. It may surprise you that in the year 1961 there were over 48,000 enrolments in the various training and retraining courses available to our employees. Now, these range all the way from staff training courses, which is management education to sales and customer relations.

In connection with management education, the staff training course has been attended by over 450 officers since its inception in 1953. This course is held annually at Bishop's University at Lennoxville. 56 students enrolled last summer. As well, several additional management courses, designed to improve supervisory ability and managerial effectiveness, were initiated during the year.

Then we have a regular course of job instruction training, which stresses the responsibility of the supervisor for on-job training of his men and which is part of the syllabus of courses followed by Maintenance of Way personnel, chief clerks and other supervisory personnel. This was attended by 177 supervisors.

Then we have leadership training. Courses in leadership and management skills for foremen and other supervisory personnel were conducted by company instructors in Moncton, Montreal, Winnipeg, Toronto and Vancouver. These courses, which include subjects such as human relations and skills of communication and delegation, were attended by over 500 supervisors of various departments.

Under the heading of technical job skills, during 1961 there were 5,600 enrolments by employees from Maintenance of Way, Signal Maintenance and Communications Departments and motive power and car equipment shops in courses such as new methods in track maintenance, operation of new work equipment machines, centralized traffic control, the new science of microwave transmission, reperforator switching, telex, and so on. Of course, as a result of these courses the men qualify for promotion in due course because of the skills they have acquired.

Under clerical skills, continuing mechanization of clerical operations resulted in many clerical employees being retrained or trained to meet the new requirements of their jobs. In 1961 some 387 employees were either trained or retrained in key punch, sorting, tabulating, and transceiving operations. The total number of enrolments in training or retraining courses for improving clerical skills during 1961 was 1,029.

Then we have sales and customer relations. There were 1,048 enrolments in courses on the preparation and serving of food for chefs, waiters and stewards, the counter sales and telephone techniques for information and reservation clerks, all of which have as a common objective better customer relations with an emphasis on service and courtesy.

In addition, 2,000 employees were trained in the new telephone handling procedures brought about by the installation of Centrex. Incidentally, C.N. and the Bank of Montreal were the first companies in Montreal to get this system, the purpose of which is to improve customer relations by establishing fast and direct contacts with them. That is the sort of thing that we have carried on with. We also have another type of training which can be summarized as safety and accident prevention. We have a 13,000 enrollment under that plan.

We have regular apprenticeships in our mechanical section which are governed by a wage agreement. We have a 665 enrollment in that period. We have a 2,600 enrollment in the medical first aid course, and we have 11,000 enrolled in a course on transportation and rules governing the operation on the roads of the railway.

Generally speaking we have estimated our company cost in training and re-training courses as approximately \$1,500,000 for the year 1961 which represents an increase of about 15 per cent over 1960.

Mr. LEWIS: Does that include wages paid to the people who are taking training, or is that in addition to that?

Mr. GORDON: No, this is quite separate from wages. It is altogether separate.

Mr. LEWIS: How do you pick out the people who are to receive training which will lead to promotion?

Mr. GORDON: This depends upon what course is involved. Very often this is done upon the recommendation of a man's supervisor. In the case of staff management courses, of course, we select them very carefully. We have a panel of three officers who know the individual concerned, and they go very carefully into his qualifications and characteristics and make a recommendation for that individual in respect of the particular course.

Perhaps not in as precise a way as that, but generally speaking, the foreman or the instructor, and sometimes the supervisor of an individual in question, makes a recommendation in respect of the individual. Very often the individual himself will apply, of course, but then the supervisor will give us the nod, indicating that the individual is worthy of such training, and we accept the application. In every case we find out whether the individual has the capacity and characteristics making him acceptable for training.

Mr. LEWIS: While you are dealing with this type of thing could you explain in a little more detail what is meant by the last paragraph in this section where there is reference to a study program? Is that at all related, or is that an entirely different thing?

Mr. GORDON: No, the work study program is an entirely different matter again.

Mr. LEWIS: Perhaps I should not get into this subject at this time.

Mr. GORDON: The work study program arose from a group of officers who had been selected by our Research and Development Department. They were given training in respect of the matter of observing the best scientific methods and keeping procedures up to date, or just seeing that common sense is used so as to produce a better productivity effort. This program is heavily designed to teach the individual employee how to work safely and more comfortably in order to produce better productivity.

Mr. Demcoe has had some experience with this work study program and perhaps he might tell you, Mr. Lewis, just how this program works in action. They go out in what one might almost call cells, if you will, except that is a poor word to use these days.

Mr. LEWIS: Task force I think is the phrase they use in Washington.

Mr. GORDON: Yes, perhaps task force would be the better phrase. A group of men will go into a freight shed, let us say, for example, and they will sit down and study the actual operation of that freight shed. They will carefully observe exactly how the packages or freight is taken off the box car, the handling it receives before it is finally sorted out, and form a judgment as to whether or not the operation could be done more efficiently and better with

less expenditure of manual effort, deciding whether machinery could be used to better advantage, and whether the men should be given better tools. In many cases they find that the men do not have the right kind of tools to do the job.

Mr. LEWIS: Perhaps it is a study in respect of what we call an industrial engineering program?

Mr. DEMCOE: Yes, it is industrial engineering.

Mr. LEWIS: And perhaps time study?

Mr. GORDON: We do not use the words time study because it has been discredited as a result of the connotation that you are dealing with sweated labour. That is not what a work study is at all. A work study involves two ideas. It is directed toward the interest of the employee in order to provide him with better methods of working and better surroundings. We have found in various places that our equipment was not good or that the actual means of work was not good. We have found, for instance, that often the chairs being used are not the right height, for example in regard to the chairs in the locomotives which perhaps had not been properly designed. We have gone to work in this regard to see that the employee is comfortable because we assume that if an employee is comfortable he will do a better job.

We also include in this program an attempt to eliminate all wasteful procedures which are obviously not well thought through.

We have had some very good results from this program, but I intended Mr. Demcoe to give you some practical illustrations as I am sure he has seen some of these studies in operation.

Mr. DEMCOE: When we are building or repairing a bridge, for example, we see that the material arrives at the proper time, and that all the equipment is on the site when required. We see that the tools necessary to do the job are delivered before he men are brought to the job in order that they may commence working upon their arrival instead of having to wait for the material and the equipment. We do not bring a gang into the job and then bring the material two days later and the equipment four days later. We try to establish proper job organization.

Mr. LEWIS: I suppose that the location of the equipment in relation to the work to be performed is considered?

Mr. DEMCOE: Yes. Furthermore, it also involves a study of the methods of doing the work. We try to arrive at a proper alignment of people in proper locations and attempt to make sure that they have the right number of people for each particular job. Instead of having ten men at one location and two men at another, the particular job may require six men at the first location and four at the other in order that you have efficient production.

Mr. FISHER: Mr. Chairman, in respect of the training operations, Mr. Gordon outlined a practical program covering various fields and told us that last year an effort was to be made to publicize the training programs available I have kept track of this attempt at publication through reading your magazine and have noted that several issues have dealt with these subjects. I would still like to know what an employee at a place like Hornepayne does when he becomes redundant. What is his answer to the problem of finding alternative employment by perhaps re-training within the C.N.R. system?

Mr. GORDON: His first step is to approach his immediate superior, whoever he may be, and discuss the situation with him. The employee will find that the supervisory officer is anxious to listen to his problems and will see what can be done to solve them. Sometimes an employee can effect a transfer to another district, but this depends on the circumstances. We also have a counselling and consulting service available to every employee of the railroad.

Mr. FISHER: Supposing an employee is in a line of work for which there are no further opportunities in the system, or perhaps union agreements do not allow him to switch to another territory, does the solution to his problem depend entirely upon the structure of the system as it exists where that man is, or can he get in touch with the head office, which will appraise his qualifications in respect of further training in order that he may enter another field in the system?

Mr. GORDON: The employee will follow the line of contact that I have mentioned, of which he has been advised through bulletins sent out to him.

I would like to find a note in this regard which I have because it has a bearing on the point that you have referred to. Yes. Here it is. In 1961 you will find that there was a reduction of 3,989 employees in the average level between 1961 and 1960, which represents in the Canadian lines a reduction of 4.1 per cent. In point of fact what actually happens is that the figure is meaningless in terms of determining what actually happens on the railroad. My analysis here shows that during the year there were over 12,000 employees who retired, were discharged, resigned or died, and resignations alone accounted for nearly 7,500 of this total. Since many of the seasonal hirings, such as extra gangs, are not made through employment offices, it is very difficult for us to arrive at the exact number of new hirings, but it was estimated as being over 8,000 during 1961. Of this number 3,600 were hired to fill permanent positions and approximately 1,700 were temporary, and the remainder seasonal. In addition, 1,400 laid off employees were re-hired and filled other suitable positions. We did not compile statistics in regard to those employees who were recalled to service, because that is a right confirmed on them by an agreement and, therefore, it would be a double count. However, if our work force had been perfectly flexible and adaptable, one could obviously say that there would be no lay-offs at all because the return to normal operation would be much higher than the actual decline that took place for that period. Because of the required skills for some jobs, the reluctance of some employees to leave an area and accept a transfer, as well as the rejection of applications in respect of skilled crafts and seniority provisions in labour agreements, this has restricted the company from progressing as far as it hoped in this direction, but we hope to solve some of these difficulties during negotiations which are now in progress.

We hope to have some improvement on that in the negotiations that are going on now but we do have a regular system that when a man is actually laid off from his work he can apply for help, and through our employment offices and his own immediate boss we will let him know where opportunities exist. Very often we find that the employers do not want to take them for various personal reasons.

Mr. FISHER: With this specific group of employees such as the firemen, many of whom have the seniority to remain on call and yet are not working very much, has there been any special effort made to attract these younger men into other lines?

Mr. GORDON: I would say no because they are in a very special category. They have certain right under the work agreement and we do not want to be put in the position of management attempting to attract them away from their right. It has to be a voluntary decision.

Mr. FISHER: But they could take advantage of these opportunities?

Mr. GORDON: Yes, if they gave up their seniority in the firemen's group.

Mr. FISHER: But in order to approach this opportunity they would find out about it and have their case examined and then make the choice.

Mr. GORDON: That is right. They would make their choice as to whether or not it is wise to do it. However, we as management have been very delicate

about applying any pressure along that line because they have got there rights in the agreement and it is for them to make up their own minds.

Mr. BENIDICKSON: We have gone from system to operations, and under operations there is this reference to more efficient and economical operations.

The CHAIRMAN: Are you satisfied to pass system?

Mr. LEWIS: I thought we were on operations.

Mr. BENIDICKSON: Two points occurred to me in connection with personnel, one is that I have before me a clipping from the railwayman's newspaper called "Labour". The date is January 13, 1961 and it says that the federal labour department is undertaking a detailed study of the rail industry problem induced by automation and technological change, but it may take more than two years to complete. What knowledge has the president of this work going on by the Department of Labour with respect to rail operation?

The other question that I would raise is that I think Mr. Gordon will know that certainly in 1960 and in 1961 when the legislative committees of the railway brotherhoods met government on each presentation for those years they seemed to concentrate their presentations or emphasize the need for action under section 182 of the Canadian National-Canadian Pacific Act which provides for certain privileges when they are displaced from their employment. I was wondering what had taken place in that regard, in particular in northern Ontario where we had a pilot application on the part of the C.N.R. and the C.P.R. to amalgamate their telegraph offices at the Lakehead. I am wondering to what extent, after getting this judgment, the two railways have proceeded to other amalgamations of telegraph offices elsewhere in the country, and in particular what the railway has done to give heed to this particular reference in the judgment of Mr. Griffin, the assistant commissioner when he said, with respect to the Lakehead judgments that changes in the employment situation were foreseen in the Canadian Pacific Act which provides a complete code for the compensation of employees whose status is changed. Just what is the practice of the C.N.R. having regard to this section 182 of the Canadian National-Canadian Pacific Act which I think was enacted by parliament in the thirties?

Mr. GORDON: At the moment there is a very active committee of the Railway Association which represents all railways of Canada dealing with section 182 of the act. That committee will be ready to report in the very near future. We also have in mind that there is a bill in the House of Commons now.

Mr. BENIDICKSON: By a private member, I think.

Mr. VAUGHAN: C-26.

Mr. GORDON: I expect that the railways will have an opportunity to make representations, and we are working on that now.

The CHAIRMAN: Any more questions on operations?

Mr. BENIDICKSON: Can the president tell us whether or not he has been in touch with the Department of Labour about this special study to which I referred which apparently started in 1961?

Mr. GORDON: I have not been in touch personally but I am told that there has been a constant discussion with the Department of Labour about this very thing. The Department of Labour established an advisory committee back in 1961. This did not apply only to the railways. It was a much broader study than that, and there was to be a study of the effects of technological change in all major Canadian industries. I am not in a position to say whether the Department of Labour is ready to make the report, but it is in their hands. We have had an opportunity to talk to them.

Mr. BENIDICKSON: Beyond the Lakehead, have there been other amalgamations of telegraph offices between the C.N.R. and the C.P.R. since this pilot judgment was obtained?

Mr. GORDON: I do not recall any of this particular type.

Mr. FISHER: Could I ask a question along the same line? Mr. Benidickson has mentioned the proposals of the national legislative committee of the international railway brotherhoods. Is it correct that they have been to see you, Mr. Balcer, within the past month with suggestions in this particular field?

Mr. BALCER: That is right.

Mr. FISHER: Could you relate them to what Mr. Gordon stated that the railway association is working on it?

Mr. BALCER: The representations which have been made to me were to the effect that they were asking the government to bring before the house a resolution or a motion to have these matters included in the terms of reference, or rather to have these matters studied by the standing committee on railways, canals and telegraph lines.

Mr. FISHER: Could you tell us what you have done with that proposal?

Mr. BALCER: The government is considering it. If and when the government decides to do so, it will be on the order paper.

Mr. CARTER: It is past ten o'clock, Mr. Chairman.

The CHAIRMAN: I do not think it has anything to do with this committee.

Mr. FISHER: Mr. Gordon was talking about management's approach to this particular problem that Mr. Benidickson brought up. I knew it was before the minister and I wanted to know whether he had anything to say that would be relevant to our considerations here.

Mr. BALCER: What I was saying had nothing to do with the bill that was referred to by the president.

Mr. FISHER: We expect to hear your stand when it comes before the house.

The CHAIRMAN: It is interesting for us here but it would be more relevant in the house.

Mr. FISHER: We are just a microcosm of parliament.

The CHAIRMAN: It is time to adjourn.

Mr. GORDON: Is the report carried?

The CHAIRMAN: I have not put the question yet. Is the report carried?

Some hon. MEMBERS: No, no.

The CHAIRMAN: We will meet here tomorrow morning at 10 o'clock. Tomorrow we will have to adjourn at 11 o'clock.

*Parliament, House, Sessional Committee
on Railways, Air Lines and Shipping*

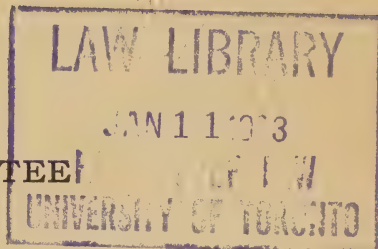
HOUSE OF COMMONS

First Session—Twenty-fifth Parliament

1962

SESSIONAL COMMITTEE

ON



RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, NOVEMBER 21, 1962

Canadian National Railways Annual Report (1961)

WITNESSES:

The Honourable Léon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1962

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Chairman: Hon. W. Earl Rowe

Vice Chairman: Mr. Heber Smith

and Messrs.

Addison	Fairweather	Pascoe
Badanai	Fisher	Pugh
Benidickson	Foy	Rideout
Bourbonnais	Grégoire	Rinfret
Caouette	Lamoureux	Robinson
Carter	Lewis	Rouleau
Chevrier	McDonald (<i>Hamilton</i>	Smith (<i>Calgary South</i>)
Coates	<i>South</i>)	
English	Ouellet	

(Quorum—10)

R.-L. Boivin,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, November 21, 1962.

(5)

The Sessional Committee on Railways, Air Lines and Shipping met this day at 10.05 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Addison, Badanai, Benidickson, Carter, English, Fisher, Foy, Lamoureux, Lewis, McDonald (*Hamilton South*), Pascoe, Pugh, Rideout, Rinfret, Robinson, Rowe, Smith (*Simcoe North*).—(17).

In attendance: The Honourable Léon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-president, Accounting and Finance; Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Committee resumed consideration of the Annual Report (1961) of the Canadian National Railways. The witnesses were questioned on the Operations Section, which was passed.

The Committee proceeded to the Freight Services Section.

At 11.00 o'clock a.m., the Committee adjourned until 3.00 o'clock p.m. this day.

AFTERNOON SITTING

(6)

The Sessional Committee on Railways, Air Lines and Shipping resumed at 3.30 o'clock p.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Addison, Badanai, Benidickson, Carter, Coates, English, Fairweather, Fisher, Lamoureux, Lewis, McDonald (*Hamilton South*), Ouellet, Pascoe, Pugh, Rideout, Rinfret, Robinson, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(20).

In attendance: The same persons as were called at the morning sitting.

On motion of Mr. Rideout, seconded by Mr. McDonald (*Hamilton South*).

Resolved,—That the Committee print as part of its Evidence the Annual Report (1961) and other documents submitted by the Canadian National Railways.

The Committee resumed the questioning of the witnesses on the Annual Report (1961) of the Canadian National Railways.

The Committee ordered the tabling of a document (*See Appendix A to this day's Minutes of Proceedings*) submitted by Mr. Gordon, comparing standardized railway revenues for the C.N.R. and the C.P.R.

The Freight Services Section was then reviewed and the Committee passed on to Highway Services.

At 5.30 o'clock p.m. the Committee adjourned until 10.00 o'clock a.m. on Thursday, November 22nd.

R.-L. BOIVIN,
Clerk of the Committee.

APPENDIX A
C.N.—C.P. COMPARISON

	C.P.R.			C.N.R.		
	1961	1960	CHANGE %	1961	1960	CHANGE %
Railway Revenues	\$ 465,490,076	\$ 457,105,482	1.8	\$638,201,547	\$626,495,315	1.9
Railway Expenses	427,839,227	423,430,812	1.0	655,140,382	645,540,674	1.5
Net Earnings	37,650,849	33,674,670	11.8	(16,938,835)	(19,045,359)	11.1
Other Income	11,717,033	12,402,177		12,106,973	12,571,627	
Fixed Charges	49,367,882	46,076,847		(4,831,862)	(6,473,732)	
Net Income	16,906,640	17,105,571		62,475,910	61,023,045	
	32,461,242	28,971,276		(67,307,772)	(67,496,777)	

In the above table C.N.R. figures have been restated to bring them into a form comparable with those of C.P.R.

EVIDENCE

WEDNESDAY, November 21, 1962

The CHAIRMAN: Gentlemen, we have a quorum. Would you please come to order.

Mr. Pascoe wishes to ask a question at this time.

Mr. PASCOE: Mr. Chairman, I am not interested so much in asking questions but I would like to express an opinion on the time we are taking to go through this report.

If you will recall, we spent the whole day on this yesterday. We have a caucus later on and, tonight, we do not sit in the house—and I hope we will not have to sit here either.

I would like to make a suggestion. We have pretty well gone over the complete report. At this time I would like to ask a couple of questions on freight service and trucking and I think we should decide now that we have completed operations and proceed to freight services.

Mr. LAMOUREUX: No, we are not finished with operations.

Mr. PASCOE: I do think we should decide right now how we are going to continue in order that we might complete this today.

Mr. FISHER: Why should we?

Mr. PASCOE: Well, we have these high paid officials present and the C.N.R. has to be run.

Mr. FISHER: It is their responsibility to come here.

Mr. PASCOE: I do not mind questions being asked but I do think that everyone should make an effort to proceed in a more definite way.

The CHAIRMAN: I would like to see this committee proceed on a more businesslike basis. Although I do not want to restrict anyone from asking questions it would be appreciated if we could continue in an orderly fashion so that we are not running all over the place and retracing subjects which have been discussed.

When we finally have completed the subject of operations Mr. Pascoe does wish to ask a few questions on freight service, and I think he should hold his questions until that time.

Mr. FISHER: I agree with that suggestion.

The CHAIRMAN: We will try to proceed, as I said, with a little more order and, if I might say so, wasting the time of the C.N.R. officials also is wasting our time. I hope we will adhere to the terms of reference as much as possible as we proceed on from this point.

We are not here as a committee to examine government policy, as it were, or to question the minister; we are here to look over the accounts and bills that are presented to us, and other things which are not matters of the long-term policy of the company. Our duty is to peruse the items that are set forth here in this report and to examine the accounts.

Mr. LEWIS: Mr. Chairman, I hope you will not accept my silence as meaning that I am in agreement with your last statement, that we are not interested in long-range policy. However, I do not wish to take up the time of the committee in getting into an argument over this.

The CHAIRMAN: Naturally, we are interested. However, the terms of reference do not ask us to search for government policy or look into the long-term policy of the company. I think all of us have been given a great deal of latitude on this subject. The MacPherson report has been discussed and, perhaps, it does tie in to certain expenditures and so on. As I said, we are here strictly to follow the terms of reference.

Mr. RIDEOUT: Mr. Chairman, almost ten per cent of the employees are from my constituency and it would be only natural that I would have a number of questions to ask which are of interest to the people I represent.

The CHAIRMAN: Certainly. That is understandable, as long as your questions conform to the terms of reference and to this report.

Mr. LEWIS: Just before we adjourned Mr. Gordon had told us that some committee of the railway association was giving thought to the application of section 182 of the C.N.-C.P. Act. It occurred to me last night that perhaps the committee might be interested in knowing what they are giving thought to in that regard. What is it they are considering?

Mr. VAUGHAN: I think the discussion had to do with bill C-26.

Mr. LEWIS: No. There was a question asked by Mr. Benidickson about the application of section 182 of the C.N.-C.P. Act, and Mr. Gordon said some committee of the Canadian Railway Association was giving careful thought to that section. Would you tell us, Mr. Gordon, what it is they are considering.

Mr. GORDON: No, certainly not.

The point I was trying to make clear was that the railways are actively interested in section 182 and various comments that have been made about it from various sources. We are examining all the implications and aspects of section 182 and, in due course, this committee, which is a joint one of the railway associations, will be making a report to the management of the respective railways, at which time we will determine what, if any, action is required, and what views need to be expressed or where they might be expressed. However, as I said, it is not intended for that committee to do any more than to explore anything that might arise out of the consideration of section 182.

Mr. RIDEOUT: I would like to ask Mr. Demcoe if the railway is considering some sort of centralized or master agency.

Mr. GORDON: Yes. Again, that comes under trucking.

Mr. RIDEOUT: But it is not going to affect the rail operations.

Mr. GORDON: Yes, but I cannot deal with it as we keep on getting into trucking and highway matters and back out again. As soon as you talk about the master agency principle, we are into trucking again.

Mr. FISHER: I have a question relating to hump yards. Although the Winnipeg Symington yard was operating before the official opening there were advertisements in the Winnipeg papers to the effect this would cut the time of trains—and I believe that is the way it was worded—in half; that is, trains moving from east to west and from west to east. Has that performance been realized?

Mr. GORDON: Although I do not remember the exact wording of the advertisement, it is an operating matter and I would ask Mr. Demcoe to comment on it. I do not think it was said it would cut the time of trains in half; it had to do with the movement through the yard.

Mr. DEMCOE: It was not the intention to shorten train time, although there has been some reduction in that. Actually it concerns the reduction in car time and car days in train movements from place to place.

Mr. FISHER: I believe it did mention the movement of cars through the Symington yard in Winnipeg.

Mr. DEMCOE: This concerns the total time from the time a train leaves an origin point, like Calgary or Edmonton, until it arrives in Toronto, and the total car days would be less because of less blocking and switching at inbetween points. For instance, the train would be taken into Winnipeg where it would be properly marshalled and blocked.

Mr. FISHER: Is it true that since the Symington yard was introduced one of your premium trains, 303, is now taking twice as long to be cleared out through Winnipeg going west as it did when you had flat switching.

Mr. DEMCOE: No, it has not made any difference to the schedule of the train between eastern and western Canada—at least, not that I am aware of.

Mr. FISHER: No difference at all.

Mr. DEMCOE: No.

Mr. VAUGHAN: I understood Mr. Fisher to ask if it had an adverse affect and Mr. Demcoe says no.

Mr. DEMCOE: No, not on the schedule itself from Toronto to Vancouver.

Mr. FISHER: I know it was designed to improve it. On a visit to Winnipeg I obtained some information which indicated, if anything, it was balling things up in taking so long to get trains through.

Mr. GORDON: The answer is no.

Mr. DEMCOE: Originally it was due to the reorganization and the training of people and getting them all lined up. As you know, when you open up any new yard it takes some time to train the people. But they are pretty well trained now and they know what they are doing, and the performance is being improved every day.

Mr. FISHER: Have you received any complaints from the unions where you have these hump yards over the change in role of the switch engine? it is now a tramp engine in the sense that it works all over the yards; whereas before it was working at specific points.

Mr. DEMCOE: Every engine has a specific job or function to do and it may be that there is less tracking to do than what there was formerly. An engine has a specific duty to do in the hump yard, and then there is the transfer from the hump yards to the various industrial areas, which is the same as they did formerly.

Mr. FISHER: At the Lakehead I have received several complaints which I have taken to the board of transport commissioners, but have received little or no satisfaction there, with regard to general terminal operations in the transfer of so called trains without the air being coupled into the system. I saw an item which appeared in a Winnipeg paper several months ago relating to this same complaint about the railway operation in Winnipeg. Have you examined this particular problem or have you received complaints about the operation of transfer trains without the air being hooked into the system?

Mr. DEMCOE: We have received a complaint within the last month and a half about trains operating in the Winnipeg area from Transcona to Fort Rouge, and to the hump yard in that area.

Mr. FISHER: What is the safety factor involved?

Mr. DEMCOE: Actually the safety factor is very slight. The trains operate at speeds of five to fifteen miles an hour, so we have not had any difficulty in this regard at all.

This question is being heard by the board of transport commissioners next week.

Mr. FISHER: It will be heard by them next week?

Mr. DEMCOE: That is right.

Mr. FISHER: Is the moving of transfer trains without the air being hooked up an operation according to uniform rules?

Mr. DEMCOE: There is nothing in the operating rules actually in regard to transfer moves within yards that are in cities.

Mr. LEWIS: I suppose that statement depends upon the definition of the word "move"? There is a rule against the moving of a train without air, but whether this applies to transfer moves or not I do not know.

Mr. FISHER: Mr. Chairman, I have several more questions in relation to the general situation in hump yards.

What has been the reaction of employees to the type of supervision that is now in effect in the yards? I do not like to raise these questions but I have been bombarded with mail in this regard and I want to raise them generally in order to ascertain the position taken by management with respect to the reaction of the employees to the kind of supervision that you now have in these hump yards.

Mr. RIDEOUT: As a resident of Moncton I should say that the reaction is very good, Mr. Chairman.

Mr. DEMCOE: I would say that the reaction has been excellent because a number of men have been promoted from yard men to yard foremen, from yard foremen to yard masters, and from yard masters to general yard masters. Those individuals are the people running these yards and they are happy.

Mr. FISHER: In regard to the yards at Moncton, or Montreal or elsewhere, you have not had, for example, grievances develop in an inordinate way in respect of this work?

Mr. DEMCOE: Not that I know of.

Mr. GORDON: Perhaps I should add a word here, Mr. Chairman, because I have been interested in this point myself and in visiting these yards I have made inquiries both of the supervisory officers and the men around the yards. I think it is perfectly fair to say that in the initial stages of establishing these new yards there is a great difference in operation involved, and perhaps there are isolated instances where the men are a little uncomfortable because of the new way of doing things. Some men take longer to absorb what is required of them than others and in the earlier stages there may be actual unrest. There has been some difficulty in the early stages of operation in these new yards until the system has passed the teething point, but all of the supervisors have reported to me that there has been excellent esprit de corps and a very rapidly developing pride in the operation. These points of friction which are natural enough in the early stages are being worked out rapidly. The general feeling around these yards, as I have observed it, is first class.

Mr. FISHER: In respect of this settlement that you achieved, Mr. Gordon, with the brotherhood of railway trainmen, were any changes made in the contract relating to the duties of trainmen in these new hump yards?

Mr. GORDON: There were 12 or 13 rules involved. I cannot remember them. Do you remember them, Mr. Demcoe?

Mr. DEMCOE: I do not remember the details of those rules, but there has actually been a difference in some of the jobs and particularly in respect of the yard masters work. Formerly the yard master was out in the yard supervising the work on the ground. Today he sits up in a tower and at first yard masters had some difficulty in getting used to the idea of looking out on the

ground to see where the engine man was and what he was doing, because he was formerly out running around the yard. The yard master had to get used to the idea of having to operate from the seat of his pants instead of being out in the yard itself.

Mr. RIDEOUT: The yard master uses a radio in his operation, I understand?

Mr. DEMCOE: Yes, he has a completely different type of communication with the men.

Mr. FISHER: The reason I asked about this contract settlement with the brotherhood of railway trainmen is because I wanted to find out whether the settlement has been finalized in so far as contract changes are concerned.

Mr. GORDON: Yes.

Mr. FISHER: The settlements have been signed?

Mr. DEMCOE: That is right.

Mr. FISHER: Mr. Chairman, those are all the questions I have in regard to hump yards.

Mr. PASCOE: Mr. Chairman, I am very interested in the statement regarding the research possibility of using crude oil as a fuel for diesel locomotives. I should like to know whether the farm operator using diesel equipment will benefit from the results of this research in respect of locomotive fuel?

Mr. GORDON: This is an investigation which was commenced by the C.N.R. laboratory research people working in cooperation with the National Research Council and the Canadian Pacific Railway Company. We were able to arrange for exploration tests in the field in respect of the possibility of using western Canadian crude oil as fuel for diesel engines without having to put it through one more step of refining, or whatever the term may be.

The most recent report I have in that regard is that they have had good results from the field test and believe it is going to turn out to be a practical possibility. We are not yet ready to adopt this type of fuel entirely because it is still in the experimental stage. However, if this does work out we expect that we will make a substantial savings in respect of our costs. What may result as a subsidiary matter in respect of making that type of oil available for diesel machinery, I am afraid I cannot answer. I would make the guess and this is purely a guess that if we find it a practical operation in regard to diesel locomotives, this type of fuel will be satisfactory in the operation of diesel fuel type farm machinery. Our diesel locomotives are more delicate and need a better type of oil than most of that type of machinery so we feel that if it is satisfactory for diesel locomotives it will be satisfactory in that type of machinery.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I have a question I should like to ask in respect to hump yards.

Mr. Gordon, the property that was purchased by the C.N.R. in Halton county outside of Hamilton I understand is to be used as a hump yard. Perhaps you could inform me as to the intended use of this property?

Mr. GORDON: No, this property will not be used as a hump yard. I do not remember the property you have in mind, but perhaps Mr. Demcoe could give you this information.

Mr. DEMCOE: Is the property you are referring to located in the vicinity of Burlington?

Mr. McDONALD (*Hamilton South*): Yes, the property is located just above the town of Burlington.

Mr. DEMCOE: It will be used for tracks required in setting-off and picking up cars for the particular area which will be switched in that vicinity.

Mr. McDONALD (*Hamilton South*): When a proposal to purchase property of this kind is put forward does the C.N.R. have a real estate firm to purchase the property or does the C.N.R. handle this operation itself?

Mr. GORDON: Such a purchase is done both ways. We have a real estate department that makes good judgment in regard to the values of property and, in addition to that, we use local agents, where it seems appropriate, in order to get valuation appraisals. This is done when we consider it desirable.

Mr. McDONALD (*Hamilton South*): In the case of the Halton county purchase did you use your own officials or did you use a local real estate firm?

Mr. GORDON: I would have to look at the file in that regard in order to give you an answer.

Mr. McDONALD (*Hamilton South*): When the C.N.R. contemplates a purchase of this type is consideration given to the local zoning by-laws in respect of whether the adjacent property is of a high or low type or residential?

Mr. GORDON: We hold very detailed discussions in this regard and our regional vice president has detailed discussions with the city authorities. In the last few months there have been quite a number of meetings in connection with this property to which you have referred. I know this as a fact because I was asked to meet a delegation but was able to avoid doing so by pointing out that the local officials knew much more about the situation than I and it would be far better to start at that level with local discussions. I pointed out that if it was impossible to reach an agreement following this procedure I would be glad to meet with them. However, the reports I have received indicate that they are getting along very well.

Mr. McDONALD (*Hamilton South*): That may well be the indication in the reports that you have received, sir, but the people I have been talking with in my constituency as well as the secretary treasurer, have asked me to look into the industrial development picture, and my information is that the land purchased was in a residential area with agricultural zoning adjacent. I am also informed that there are a number of very high priced homes in the area. I wondered whether it was a policy of the C.N.R. to avoid purchasing property in such an area so as to avoid delays in their operations as a result of rezoning applications because of adjacent residential areas.

Mr. GORDON: I can tell you that our policy, to start off with, is to avoid as much trouble as we can with everyone. Secondly, we never purchase a piece of property without a careful search in regard to the zoning regulations which might apply to it. Thirdly, we must determine what is needed in that area to service the industrial complex of the area.

Very often we find there are some objections, but we must find a piece of property that is suitable. We cannot build a yard on the side of a mountain, for instance. We must have a level piece of land.

It also has to be fixed in a location that is reasonable in terms of serving the industrial complex that we are trying to serve. So that in any of the yards—and we have had a lot of experience with this—our selection keeps in mind the service that we have to give. We would certainly not dream of putting a yard into a residential area if it had been zoned residential.

Mr. McDONALD: Mr. Gordon, if you look into this further it would be very helpful. I do not know what your local officials have done on this, but I have had representations from people in the area with regard to the circulation of a petition with 5,000 names on it. They were very angry that you did locate this next to a residential area, and they said that if you moved one concession further you would have hit an area which was primarily industrial. I would like to know how it is determined and why this area was not looked at before, or whether you looked at the area one concession further.

Mr. GORDON: There was a question asked about this in the house and it would be worth while to repeat the answer here because it bears very particularly on this subject. It is a question by Mr. Sams who said:

Have representations been received from the Aldershot property owners association in opposition to the site selected for a proposed set-off yard of the Canadian National Railways and (a) if so, has the company taken any action in an effort to find an alternative site (b) if not, will the minister request that the company give immediate consideration to the desirability of finding an alternative site?

The answer was given by Mr. McBain as follows:

The management of Canadian National Railways advise as follows: Representations have been received and officers of the great lakes region have held meetings with the mayor and councillors in order to explain what is involved. The existing main line through Burlington was constructed in 1855, and the planned set-off tracks are an essential part of the operations to serve the industrial complex between Burlington and Mimico and the connection with the line to the new hump yard. The railway officers have made an extensive examination of the situation as to the location of the set-off tracks and several sites were examined in the course of which many factors had to be taken into account such as operating conditions, and engineering limitations. Every effort has been made in the over-all project in order that the minimum of disturbance would be caused to communities.

On the basis of that—and I know from experience that you will always find some people who would say “nevertheless, I wish he placed it somewhere else—” you will have an understanding of our position on the subject.

Mr. McDONALD: All I ask is whether you would personally look into this since this question has been asked and representations made. It is my understanding that the council and the homeowners in the district are not satisfied with the negotiations and the talks with the local people. I know the problem you face in the situation. All I am trying to point out is that it seems to me that if an exhaustive search had been made at the time concerning the movement of this one concession further, there would have been no squawk. Could you look into it and satisfy yourself that they are being dealt with fairly?

Mr. GORDON: I would be glad to do so, and moreover if you have any specific complaints that you would like to refer to me, I would be glad to give you a detailed answer.

Mr. BADANAI: Mr. Chairman, I have a question to which I have been unable to obtain an answer for a couple of weeks. I wonder whether Mr. Gordon could answer it now. Has the C.N.R. sold the bus service which operated between Fort William and Longlac?

The CHAIRMAN: We are now on the hump yards.

Mr. BADANAI: I thought we were on operations.

Mr. GORDON: Let us hear the question again.

Mr. VAUGHAN: Did you have the question on the order paper?

Mr. BADANAI: Yes, whether these buses were sold. Was an agreement made between the purchaser and the C.N.R. to maintain the service between Longlac and Fort William?

Mr. VAUGHAN: That was a bus service that was put in there in substitution for the rail service. At the time that we applied and received authority for the abandonment of that particular passenger service I think there are four

buses involved and we are carrying on negotiations now with the Greyhound people to take over this particular operation. However, they are not yet concluded.

Mr. BADANAI: Is there an agreement to the effect that the C.N.R. will not be curtailed or prevented from resuming the operation with the company which is purchasing the buses?

Mr. VAUGHAN: I could not say that.

Mr. BADANAI: I have one more question: why was the train service between Port Arthur and Winnipeg suspended? Was there any reason why it was suspended during the week end? I am speaking of the week end service between the Lakehead and Winnipeg.

Mr. DEMCOE: The train service formerly was six days a week, is that correct? It has now been reduced to tri-weekly, one day there and back the next day in the opposite direction. The reason for it was that there were very few people using the train.

Mr. FISHER: There will be even fewer when the highway is constructed. Can I follow up Mr. Badanai's question about the bus line? It takes us into a generality but I think it is relevant.

The CHAIRMAN: Yes, please proceed.

Mr. FISHER: This is a general point. The criticisms that were coming forward to me about the proposed stretch really deal with the pass privileges of the employees at the Lakehead. When this bus service is transferred to Greyhound, they will have no passenger connection eastward in any direct way. It means that any employee wishing to travel eastward will have to go to Winnipeg and then double back. I would just like a statement on the record as to what prevents the company from trying to make some arrangement and what consideration the company has given to this factor.

Mr. GORDON: That is just one of the facts of life. Any pass privileges that we give to our employees apply to the railway only. If we abandon any service, whether it is on the railway or whether it is a bus service, then that is that.

Mr. FISHER: The pass is not a part of the contract arrangements with your employees.

Mr. RIDEOUT: This is more or less an inquiry which involves the Minister of Transport more than the president. It has to do with the board of transport commissioners to whom an application was made by the city of Moncton in the province of New Brunswick for a grade crossing separation at mileage 26. Did the railway—I do not think you can answer this question this morning but you might find out for me—endorse this application which was made by three levels of government in the province of New Brunswick? My point in raising this—I raised it the other night in the house—is that there was a man or a woman killed at this crossing. We made application, and they turned it down. But they still maintain the 25 miles an hour slow order. They have done more to impede the progress of the railroad than anything else I know of. They should have either endorsed the grade crossing separation, or not required the slow order; but that is what they are doing. I was wondering whether the railway, the cities, the counties, and the province have made application.

Mr. GORDON: I would have to look up our file. I do not recall it. But we have a note of your question.

Mr. RIDEOUT: It does qualify what I said in the House of Commons the other night, and there is a slow order, and it costs considerable money to stop a train.

Mr. GORDON: You are saying that the board of transport commissioners maintains the slow order but does not do one thing or the other.

Mr. RIDEOUT: I would like to have it on the record if the railway endorses the application, despite the fact that the board of transport commissioners is doing nothing about it.

Mr. GORDON: I will find out what the facts are, but I would rather not make comment about it here.

Mr. RIDEOUT: I understand your position, but it is unfortunate. I think that all these laws should be given a close look by somebody. You say you will advise me whether the railway endorses it.

Mr. GORDON: We will let you know, yes.

Mr. CARTER: Could Mr. Gordon tell us about this research into the use of crude oil? Would you be able to do that without modifying or changing the locomotives?

Mr. GORDON: That is the purpose of the exercise. We intend to see if it is possible to take crude oil and use it directly in our locomotives without any major modification of the locomotive. We do not know the net result of it yet, but the exploration looks very promising.

Mr. CARTER: You mean that you would be using the present fuel system?

Mr. GORDON: Yes.

Mr. CARTER: That would be quite an advantage.

Mr. GORDON: It would be very beneficial from the standpoint of costs. But when I say modification, I mean whatever modification made would be very minor indeed, and not expensive.

Mr. FISHER: On the same topic, I note that several American lines are now using coal again in a converter arrangement, with other lines running around the West Virginia coal field. Have your research men been following those experiments?

Mr. GORDON: Yes, we keep in touch with all these experiments. But there is nothing now which leads us to believe that there is any likelihood of our going back to coal.

Mr. FISHER: I understand that it is a pilot operation. If it should be successful there, would the Canadian National Railways feel, with the needs of the coal industry, that they should seriously consider setting up the same kind of experiment here?

Mr. GORDON: Our whole policy in that regard is that we keep up to date. If there is a better way of doing the motive job, we will adopt it; but we would have to examine it in the light of all the economic factors and the existence of our present diesels. However, if there is anything new which comes along, we are ready to take a look at it, and to take on any new ideas which promise economies and which would make our operating results better. We have been watching the particular item you mentioned, but we are not sold at the moment on the idea that there is any need for change in the present motive power.

Mr. PUGH: Are you joining with the manufacturers in this experiment in any way shape or form, in respect of your locomotives?

Mr. GORDON: No. This is a railway matter in conjunction with the National Research Council.

Mr. PUGH: In the event that you are successful, will patents be taken out?

Mr. GORDON: I doubt that. It is a patentable process. It is a question of determining whether or not crude oil can be delivered in such shape that it is directly usable without some minor modification in our engines, or treatment of the oil just before it arrives.

Mr. PUGH: What cost saving would there be?

Mr. GORDON: Well, we have made a stab at it, but I do not think I had better give any figures, because the exploration is not complete. However it would run into the order of a million dollars or two probably, maybe more.

Mr. FISHER: I have one more question on operations.

Mr. LAMOUREUX: Might I ask if this research to which you refer includes research in atomic power?

Mr. GORDON: No, only to a very limited extent, in the sense that Dr. Solandt, our vice president of research and development, who is very well known in the field of atomic energy research from the scientific point of view, and who is recognized as a very notable man in that field keeps us informed. Through Dr. Solandt we are able to keep pretty closely in touch with what is happening in respect to it. But there is no immediate project, or no immediate study being made—at least no immediate study which is worthwhile making at present developing in it which would lead to the use of atomic energy in the motive power of the railways.

Mr. LAMOUREUX: And that would be in spite of the fact that there has been quite a use of atomic power in submarines?

Mr. GORDON: That is right. The most likely chance is that atomic energy might be used to produce electricity which, in turn, could be used to electrify the railway. But it is a matter of costs. It is quite feasible to do that now; however from the standpoint of the cost of the end product, our examination does not reveal that it would be cheaper than diesel locomotives now.

Mr. LAMOUREUX: I wonder whether Mr. Gordon has anything else to add to the question?

Mr. GORDON: I have this note here. Mr. Vaughan reminds me that Dr. Solandt makes this statement which reads as follows:

No immediate competitor for the existing diesel locomotive is in sight. There are indications that diesel-hydraulic locomotives now widely used in Europe may have advantages over diesel-electrics for some purposes. Some of the American railroads are already testing them and we will watch these tests with interest.

The cost of electrification is steadily coming down, so that if we are able, through atomic energy or otherwise, to reach the point where the cost of electrification gets low enough, we might have a look at the question of displacing some of the diesel locomotive operations. But in my own judgment, it is well in the future.

Mr. FISHER: Last year Mr. Gordon answered a question about the number of diesels that the Canadian National Railways had, and the intensity of use that they were getting. I wanted to ask him if his present force of diesels is being fully used.

Mr. GORDON: Well, Mr. Demcoe is in charge of transportation and maintenance and he would have a better view of that. My own impression is that we are well equipped with diesel power at the present time, and that the methods we have put in, in the form of utilization and control right through all the regions, are paying off in the better utilization and better movement of locomotives. But perhaps Mr. Demcoe would like to speak to that point.

Mr. DEMCOE: We had some locomotive units in tallow during the months of April and May, but we had to take that motive power out of tallow in June and July. It all depends on the amount of traffic and the weather conditions this winter. Depending on the weather and traffic conditions this winter, we could be short of power, and we would have to obtain better utilization of power than we now own.

Mr. FISHER: You do not say that you have a surplus of motive power. Might I ask if it is necessary for diesel locomotives when outside in zero weather to keep the motors running when they are not in operation?

Mr. DEMCOE: If the motor is not running, and the unit is outside, and if you have not got a heating unit, then it is very difficult to start. That is one of the real difficulties. If once you stop a locomotive—and Mr. Rideout knows more about it than I do—you have great difficulty in starting it again.

Mr. RIDEOUT: I think the same answer would be when you leave your car outside without any antifreeze in it, in cold weather.

Mr. FISHER: In one of the complaints sent to me it was said there was an empty roundhouse at a certain location, yet the Canadian National Railways kept diesels running outside right through the night in sub-zero weather, instead of putting them in the roundhouse.

Mr. DEMCOE: The roundhouse probably was not heated, and even if you did put it into the roundhouse we find it is more economical actually to keep it running and have it available than to cut it off and try to restart it the next day in cold weather. There are certain locations where they do put in a heater unit to keep the engine alive even though the engine is killed.

Mr. GORDON: There was a problem raised in respect of the running of these locomotives in zero weather and we did reach a certain adjustment in respect of the particular question at that time.

Mr. RIDEOUT: They are equipped with horns.

Mr. GORDON: Yes, to give an alarm when the locomotive needs attention.

Mr. FISHER: My last question on operations deals with the complaint again that comes in with fair regularity relating to the number of wrecks and things like that which are consequent upon changes in maintenance procedures that have been taking place over the last number of years. I cannot see from the statistics provided by the board of transport commissioners that there has been any serious increase in this. I wonder whether you might have a general statement you could make relating to this and relating particularly to whether or not there has been a sharp increase in the cost of these particular accidents where your train is scrambled by a broken rail.

Mr. GORDON: I am not sure I can give a general answer to that or whether Mr. Demcoe can. All I can tell you is that we certainly examine every investigation report that is consequent upon an accident. If we detect anything at all which would indicate that any special factor in our maintenance or any change in procedure was bringing about a higher degree of accidents, we would certainly take corrective action at once. From my own reading of the reports which I review from time to time I have not found in any of those findings, so to speak—almost the post mortems of an accident—that there is any increasing incidence by reason of a change in our maintenance procedure.

Mr. FISHER: Is there an insurance factor involved in this; that is, insurance against damages to shippers?

Mr. GORDON: I do not understand the question. Insurance in what way?

Mr. FISHER: If you have a wreck and goods are damaged or destroyed, do you have an insurance policy?

Mr. GORDON: No. We carry our own insurance; we settle our own claims. That is treated as an operating expense.

Mr. FISHER: Then, in a nutshell, as an operating expense have you had an increase in claims in the last few years?

Mr. TOOLE: The cost of train accidents themselves has gone down between 1960 and 1961 by over half a million dollars. This includes the cost of the loss had it been covered by insurance on the outside.

Mr. GORDON: The breakdown is under a general heading, for bookkeeping purposes, of train accidents. That covers such subheadings as injuries to persons, loss and damage to freight, damage to property of others, cost of clearing wrecks, repairs to rolling stock, and stock destroyed. Under all those headings it shows there was an improvement; in other words, a decrease in the cost in the amount of \$526,963 between 1960 and 1961.

The CHAIRMAN: Are there any further questions on operations?

Mr. PUGH: In Dr. Solandt's report, was there any reference made to the possibility of a national grid of electricity?

Mr. GORDON: Not specifically.

Mr. PUGH: Is there sufficient electricity developed at the present time to provide power for a railway?

Mr. GORDON: That is really a governmental matter. However, we have not been involved in it specifically, because we have not been specifically interested in getting into electrification of our trains since at the moment in terms of cost we see nothing on the horizon that would reduce the cost to the point that it would be cheaper than the present diesel locomotive. If the cost of electricity started to come down, then we would take a new look at it.

The CHAIRMAN: We will now turn to the item headed freight services.

Mr. PASCOE: We seem to be progressing. I hope that my questions will come under this heading of freight services. I refer to Mr. Gordon's speech in respect of a master grain handling plan. As a member from a grain-growing area I am very interested in this. In this statement Mr. Gordon states that no one segment of the economy should take individual action on this and there should be kind of a co-operative action by the growers, the elevator owner, the railway and the government. Would he indicate now whether or not there has been such co-operative action.

Mr. GORDON: As I stated, this is a speech. It is a speech which deals with the general situation and is not in any sense a declaration on my part on behalf of the C.N.R. that we are taking action to bring this about. I am only pointing out that in the general public interest that if all the interested parties were able to get together and work out a plan, it should be possible to substantially reduce the cost of handling grain. In respect of the system of handling the grain crop—and I include elevators, road and rail transportation and everything else—there has been a tremendous change since the years before the first world war in terms of available technology, but we are still pretty well handling the grain crop the way we did before the first world war. I was trying to avoid "suboptimization". That was just merely a way of saying if you take a broad general problem and have, say, ten different factors in that problem and proceed to deal with only two of the factors, then whatever corrective measures you might take in respect of them, the chances are that you would not achieve the benefits or would not get nearly as close to the solution as you would had you tackled them all.

Mr. PASCOE: You said you believed the objective should be a program which is good for the nation as a whole. You would not be acting on your own; you would work with the other parties.

Mr. GORDON: Yes. If we see any machinery or method of doing it, certainly we will.

Mr. PASCOE: You also refer to trucking from country elevators into a larger elevator. Would the railway be interested in having large trucks for that purpose?

Mr. GORDON: That would need study. It would depend on the circumstances. Again I was just making a general statement that one of the problems of the individual farmer is that one farmer is situated much farther away from an elevator than another, and particularly if my suggestion was carried out, that the economy of the elevator operation would be secured by eliminating the branch elevators and going into master elevators on the main line where we could get at the elevator economies of scale, then this question of the mileage haulage from individual farms will obviously become something that will concern individual farmers. I was saying that one way to settle that would be to have a truck handling system that would equalize the carrying rates between farms. I am not suggesting that the railways do that nor am I suggesting that they want it; I do not know. I am saying that is part of the study which needs to be undertaken and if a way can be found to do that in cooperation, for instance, with the Wheat Board, then it should be possible to work it out by whatever technique seems to be desirable at that time.

Mr. FISHER: Have you approached Mr. Crump in this regard?

Mr. GORDON: No, I have not approached any one.

Mr. FISHER: It is just a balloon?

Mr. GORDON: No, it was not, because it was not full of hot air.

Mr. FISHER: Well, whether it is, hot or cold air—

Mr. McDONALD (*Hamilton South*): In contemplating the haulage of grain from local farmers to elevators is it your intention that if this takes place you would do it with your own trucking firm.

Mr. GORDON: Not necessarily. This is something which needs examination. It is possible but not necessarily so. For example, if I could stick to a purely hypothetical case, I recognize that when I made this statement there are problems for individual people. The farmer has his special problem; the elevator owner has his special problem; the truck operator has his special problem, and the railways and the wheat board have their special problems. Now, each one of them plays a part in the grain handling mechanism of this country. Take the special problem of the farmer; I recognize there would be trouble if you were to go through any of the branch railway lines and eliminate branch elevators without regard to the consequence on the farmer, and I instanced as part of that trouble the fact you create a new differential mileage haulage as between individual farmers. Remember, I am stressing this is purely hypothetical because it has not happened but it is worthy of note—and it is not a balloon. As I say, it is worthy of examination. Allow me to stick to the hypothetical. It may be that the wheat board could arrive at an understanding to equalize the cost of transporting grain from the farmers to a given point, and that should be a pooled operation of some kind which would equalize the rates so that one farmer is not prejudiced as compared with another by reason of this changed arrangement. Whether the wheat board would even consider that or not I do not know. There may be screaming and anguish at the very suggestion, but it is possible they might consider it.

Mr. McDONALD (*Hamilton South*): Speaking hypothetically then, my understanding is that the transportation of grain handled by the C.N.R. and other railways is subsidized?

Mr. GORDON: I am happy to have you make that statement because no one in the west has ever admitted that. We believe that is right, yes.

Mr. McDONALD (*Hamilton South*): If you were handling the trucking haulage from the local farmer to the elevator with your own trucks then you would in fact by your own admission be subsidized by the government, per se, for this haulage and, therefore, you would be in direct competition with

the local truckers who might like to have the same subsidy in handling the grain both in short and long haulage?

Mr. GORDON: I think I see your point and it is a good one. This shows how many of these things come up during the course of a discussion. Your point is perfectly valid if you are talking about an all-in rate. If you are talking about an all-in rate I think there is some merit to your point. However, I do not picture this as an all-in rate. The fact is that it is an independent haulage rate from the farm to the elevator, and whether it is the railway or independent truckers it would be on the same basis.

Mr. McDONALD (*Hamilton South*): Does your statement of a year or two ago that it would not be economical for the trucking industry, or the C.N.R. with trucks to haul long hauls of grain shipments still stand?

Mr. GORDON: I think so, yes, but it is getting less valid with every year that passes.

Mr. McDONALD (*Hamilton South*): But since that time you say, in respect of hauls from the local elevator to the main elevator, it might be economical for trucks to do this even through subsidy?

Mr. GORDON: They are doing it now.

Mr. McDONALD (*Hamilton South*): This might well be true of longer hauls because in the western United States a great number of trucking firms do haul grain over long distances.

Mr. GORDON: That is right. I do not want to even imply that I am admitting necessarily that the trucking industry could develop in such a way that it will eventually displace the handling of grain by rail. I do not believe that to be the case. I do believe that we could develop an elevator system so that we only have the main line elevators, and thus receive economies in scale in the elevator itself, which I am told are very substantial. Big elevators can make very substantial savings in regard to storage as compared to the cost element involved in the small branch elevators, and this is where the railway comes into the picture. This is the area in which we believe our grain handling future lies. We believe we can provide transportation from the main elevator on a much more efficient basis than the trucker will ever be able to do. However, in respect of the problem of getting the grain from the farm to the local elevator, it is my feeling that this is a trucking problem.

Mr. McDONALD (*Hamilton South*): I have just one other question in this regard.

Mr. RIDEOUT: Mr. Chairman, I should like to remind you that we have a caucus at 11 o'clock.

The CHAIRMAN: I am afraid we will not be able to finish with the freight services item now and, as Mr. Rideout points out, we all have to attend caucus meetings at 11 o'clock. We will now adjourn until 3 o'clock or immediately after orders of the day. We will reconvene in room 253-D.

At 11 a.m. the committee took recess.

AFTERNOON SESSION

WEDNESDAY, November 21, 1962

The CHAIRMAN: Gentlemen, we have a quorum. Would someone move that the committee print the C.N.R. report as an appendix to its evidence? When we opened the committee meeting the other day I thought the report was taken as read, but we need a formal motion that it be printed. It is moved by Mr. Rideout and seconded by Mr. McDonald. All in favour?

Motion agreed to.

We now have authority to print it as an appendix.

We were on freight services and I thought we had about concluded it when someone said "not quite". We will try to keep to the items in their order. We were on sales and schedules.

Mr. PASCOE: Mr. Chairman, I would like to make one more reference to Mr. Gordon's suggestion for modernizing the grain handling plan. Mr. George N. McConnell, chairman of the board of grain commissioners, also made some suggestions along the same lines in an address to the annual meeting of the Manitoba pool elevators in Winnipeg. Mr. McConnell said he foresaw the emergence of a number of interior elevators of 150,000 to 200,000 bushel capacity and farmers would haul their grain a greater distance to these elevators. He also said:

Ultimately, one diesel with 150 or so empties will call at these interior elevators and make up a full load with fewer stops.

I am just bringing this to Mr. Gordon's attention so that he will know that others are thinking along somewhat the same lines as he is. I would again like to emphasize Mr. Gordon's comment that modernizing the grain handling system will require the combined thinking and effort of all segments of the grain economy, and I would hope that no hasty action will be taken and that all groups will be consulted and their interests protected before any definite decisions are made.

Mr. BENIDICKSON: Mr. Chairman, we are now dealing specifically with freight services as referred to on page 9 of the 1961 C.N.R. report. With that in mind I have several questions I hope I can refer to—perhaps three. Last night, just as we adjourned, I left with Mr. Demcoe a telegram which I received only yesterday in which a so-called fast freight was referred to, which I have experience with because I have travelled on the caboose many times in days gone by. I found this so-called fast freight kept a timetable more closely than the passenger train between the Lakehead and Winnipeg which has been cut down from six trips to three trips a week. Since labour day I have had some conversations with senior officers of the railroad and they gave me an assurance that this fast freight could fulfil an important place in our economic situation, particularly between Atikokan and Fort Frances where there is no highway. Now the telegram I gave Mr. Demcoe last night will indicate that, contrary to my personal experience, this fast freight is not adhering to schedule as a scheduled freight. I wonder whether Mr. Demcoe could tell us about it. It is interfering with commerce.

Mr. DEMCOE: This is train No. 408 which operates from Winnipeg to Port Arthur and from Fort William along the south line to Fort Frances and Atikokan. It used to leave Winnipeg about 20 o'clock and our people were inclined to get it out around 21 o'clock. For the past week they have been averaging between 21 o'clock and 22 o'clock. It is true that during the past week this particular train has not done very well, Mr. Benidickson. We had a washout in the vicinity of Redditt.

Mr. BENIDICKSON: In fairness, Mr. Demcoe mentioned this after the committee meeting last night.

Mr. DEMCOE: The train arrived at Atikokan on December 19 at 11:40; on December 20 at 11:45, but in checking on it we found it arrived at 8.05, five minutes late.

Mr. BENIDICKSON: Mr. President, you can understand that where the equity is owned by the taxpayers and the taxpayers only have a voice through us here, there is a proper interest. Perhaps I did not get too extravagant in

my criticism of your reduction in service on this passenger train after October 23 because of assurances that I received from senior officials of your railroad that this fast freight would do what I knew from personal knowledge it could do, and so on. However, if it is going down and if it is deteriorating in meeting schedules, I would get alarmed.

Mr. GORDON: Yes, but I also commented that any scheduled train, be it passenger or freight, is subject to exigencies of the elements and possible accidents, and things of that kind. Certainly it is our policy, that is what you are inquiring about, to get that train on time, but in the best operation in the world, we run into special situations. If I remember correctly, the record of that train has been good generally speaking.

Mr. BENIDICKSON: I just thought it was bad coincidence that it has not been good since the passenger service was reduced by 50 per cent on the same track.

Mr. GORDON: It is a bad coincidence that there should be a bad washout during the hearings of this committee, but I can assure you that I did not arrange it.

Mr. BENIDICKSON: I will not be put off by that. I take it that on bread deliveries and some other things it has gone beyond just an immediate washout. I want to draw this to your attention.

Mr. GORDON: I take notice of your concern. I have been interested in that train myself because apart from our desire to keep on schedule we intend to have it as a showpiece. We intended it to be a first class service, and I can assure you we will do everything we can to maintain the schedule.

Mr. BENIDICKSON: I indicated yesterday that we laymen must look to some of the public information afforded by the competitive railway line, the C.P.R., in order to decide our conduct or attitude toward fantastic sums, particularly in the capital financing of this government-owned railroad. I referred to the C.P.R. yesterday. I do not know whether any comment has been made available yet to this committee in answer to my question yesterday about net rail profits of the C.P.R., but when we were on freight services I left the committee this morning and went down to the library to look at the 1961 report of the Canadian Pacific Railway. With respect to freight traffic, their annual report for 1961 indicates that freight revenue for the C.P.R. in 1961 was increased by \$16.8 million, or 4 per cent. Now, in the document before us we see words about an intensified sales effort, and so on. However, the figures at the end of the C.N.R. report show the increase in freight carriage in 1961, as compared with those reported by their competitors. They attribute it to the economy as a whole, to better conditions, more business being done in 1961. Here is a government railroad. Are we getting our share of the increase in gross national product or in any other terms? I think our figures show we went down in 1961 and the C.P.R. went up. Now, what is the matter?

Mr. GORDON: As far as I can see, Mr. Benidickson, with all respect, I do not see that in the figures. The relative figures show we went up about the same.

Mr. BENIDICKSON: No, Mr. President. If I look at page 25 of your report, the figures are different from what you say.

Mr. GORDON: The trouble is, Mr. Benidickson, that these figures between these two reports are not on a comparable basis. C.P.R. do not show their figures on the same basis as we do. When you get it brought to a comparable basis—and I have it here—you will find that what you say is not the case. That is the explanation. I would be glad to let you have this table on a comparable basis, and you might want to put it in the report. This shows that in the year 1961 the railway revenues of the C.N.R. were \$638 million; in 1960

they were \$626 million, which showed an increase of 1.9 per cent for the C.N.R. If you take the same figures on a comparable basis for the C.P.R., they were \$465 million in 1961, \$457 million in 1960, or a change of 1.8 per cent. So that the relative comparison is 1.9 per cent increase in the C.N.R., and 1.8 per cent in the C.P.R. But I can quite understand your difficulty. You won't find that by comparing the two reports. It has to be put on a comparable basis, such as I have in this table, and which I would be glad to let you have. May we table this document?

The CHAIRMAN: I think the same figures were put on yesterday.

Mr. GORDON: Yes, I referred to them yesterday.

The CHAIRMAN: But the table was not put on.

Mr. CARTER: I do not think the figures tabled would be very meaningful unless we knew what adjustment were made to make them comparable.

Mr. TOOLE: Essentially we have to do two main things: first of all, Canadian Pacific express revenues are on a privilege basis, which means that they take the cost of handling out of the revenues and put the net in revenues; whereas in the Canadian National Railways we do not do this. We take the gross revenues from express and leave the expenses down in the operating expenses.

Also, in the case of Canadian National revenues we report telecommunications; whereas the Canadian Pacific does not do it. They report it as a net in their "Other Income"; so you have to adjust these two things before you can put the figures on a comparable basis.

Mr. BENIDICKSON: I thank Mr. Toole. I shall discuss it with the clerk of the committee in respect of the actual wording of his remarks, because we may not receive our minutes of proceedings for several days. However the Canadian Pacific in their 1960 report did not hesitate to indicate to the public, and particularly to the shareholders, that freight revenue with respect to 1960 went down 4 per cent; but they were able to report in 1961 that their freight revenue had gone up by the figure which I gave you earlier.

Now, this is a very complicated business, and I know that the president thinks it is rather silly for some of us to look at something for a few days which he and a staff of 130,000 employees have been dealing with for a year. But there is an odd thing here which arouses, I think, a legitimate question on the part of parliamentarians representing the equity shareholders.

Now I find on page 25 of the report before us that we are dealing with freight revenues, and that in the consolidated income statement it says that the railway operating revenues with respect to freight for 1961 were \$513.9 million; while in 1960 they were \$526.2 million. But what arouses a question at this time for me is that if one goes back to the 1960 statement that the Canadian National Railways presented to this committee, and if one looks at page 19 of the 1960 report dealing with the same thing, one finds that it says that 1960 revenues would be \$541 million.

We are just here as sort of representing the shareholders; but why would there be that difference in the figures of almost \$15 million? Is it due to an audit that takes place after parliament looks at these things?

Mr. GORDON: No, not at all. It is simply that in the 1961 report, page 25, there is a more detailed breakdown than appears in the 1960 report. You will observe, if you look at page 19 of the 1960 report, that there are only five headings showing a breakdown of the railway operating revenue; while in the 1961 report, however, we have given more information by breaking it down into nine categories; so the figure under there is not the same figure for comparative purposes in the two reports.

Mr. BENIDICKSON: Why? That is the question that troubles simple people like us. You know that for 15 years I have opposed the Canadian National

in changing its form of presentation of accounts. You know that I did that when sitting on the government side and trying to advance your best interests.

Mr. LEWIS: Are you not still trying to do that?

Mr. BENIDICKSON: I opposed it every time when you tried to change a word which parliamentarians did not understand, and where they are put in a position where they are comparing oranges with grapefruits instead of comparing oranges with oranges.

Mr. GORDON: You are not. In this case the situation is clear; there is no change in the form of the words. What we were trying to do was to meet the expressed opinion in the last two committees, and to provide more detail for the benefit of members of the committee. So we have taken those figures and broken them down under more headings. But it does not change the grand total; and when you have the net total operating revenues, those figures are comparable.

If you take that one figure from freight services in 1960, the heading is freight services, while in 1961 we call it freight; but in the total, if you look at the figure of total revenues, you will see that the total amount is shown in the 1960 report as \$693 million odd, and it is the same figure which appears in the 1961 report that you are now comparing; therefore in order to compare apples with apples, you compare the total with the total.

Mr. BENIDICKSON: Then another term, total operating revenues, comes up, and if you are preparing the 1960 report as probably you are, you are not going to leave out this figure of \$710 million of operating revenue; you will show this to use next year.

Mr. GORDON: It will be shown as exactly the same, yes.

Mr. BENIDICKSON: But there is a lowering by \$17 million in comparison to 1960.

Mr. GORDON: No, higher.

Mr. BENIDICKSON: Oh yes, higher.

Mr. GORDON: We are \$17 million higher in 1961 compared with 1960, and the Canadian Pacific figure is \$8 million higher; so that relatively we are somewhat better than the Canadian Pacific Railway.

Mr. BENIDICKSON: It is a smaller road in trackage, and so forth.

Mr. GORDON: Yes, that is right, but relatively we have done a little better.

Mr. BENIDICKSON: But not on freight income, according to my figures.

Mr. GORDON: Yes. We have a cost statement which I am now going to put on record, which you asked for (*See Appendix A included after the Minutes of Proceedings.*) Take the comparable revenues again; the change that I said was 1.9 per cent increase in the Canadian National Railways is shown against a 1.8 per cent increase for the Canadian Pacific, in the matter of total railway revenues.

Mr. LEWIS: Could the president tell the committee what quantity of grain the Canadian National Railways shipped on the Crowsnest pass rate in 1961, and what quantity of grain the Canadian Pacific shipped, and what the proportion of the Canadian National Railways shipments were to their freight tons miles, and also what proportion the Canadian Pacific shipments were in respect of their freight ton miles?

Mr. GORDON: Well, if we may have just a minute, we will look that up for you.

Mr. TOOLE: If I understand your question, you wanted the proportion of grain handled at the statutory rates.

Mr. LEWIS: Yes, under the Crowsnest pass rate.

Mr. TOOLE: You mean out of our total grain handlings?

Mr. LEWIS: Out of your total of freight ton miles, or is it just grain handling?

Mr. TOOLE: The ton miles in 1961. In 1961 we had 7,111,000 ton miles of grain and grain products on the western region of which 6,890,000 and some odd tons were at statutory rates. These are ton miles.

Mr. LEWIS: What proportion would that be of your total freight ton miles? I do not see the total breakdown given.

Mr. TOOLE: The freight ton miles is given in the statistics. The ton miles of revenue freight is at page 32.

Mr. LEWIS: I beg your pardon.

Mr. TOOLE: You will see a figure for 1961 of 34,723,000,000. The figure I gave you is ton miles, so it is 7,111,000,000 and 6,890,000,000. Those are related to 34,723,000,000. I do not have the comparable C.P.R. figure. I have the comparable C.P.R. total per C.P.R. ton miles. Their total revenue ton miles is 26,450,879,000.

Mr. LEWIS: But you do not know what their grain shipments were or the grain shipments at statutory rates?

Mr. TOOLE: No.

Mr. GORDON: I do not think it is in the report. We have it somewhere.

Mr. LEWIS: That affects the revenue pretty seriously.

Mr. GORDON: Yes. I think I made a reference to that in my opening statement.

Mr. VAUGHAN: It was mentioned that it would show up in the traffic mix. The C.P.R. as well as ourselves have submitted various detailed statements on the Crowsnest. If you are interested in some of these I will see that you get them.

Mr. FISHER: Is Mr. Benidickson through?

The CHAIRMAN: Are there any further questions on freight services?

Mr. FISHER: It seems to me that Mr. Benidickson has been really edging around, strictly speaking, every time we come here to the suggestion that the Canadian Pacific Railway shows up with a better comparison. Last year you gave us an explanation for this. I think the general question in my mind in respect of this is whether the C.N.R. might not profit from a dose of C.P.R. management.

Mr. BENIDICKSON: Since Mr. Fisher has C.P.R. roads and C.N.R. roads in his vast riding as I have, would he say that he gets any complaints from C.P.R. employees. I don't.

Mr. FISHER: Yes, I do.

Mr. BENIDICKSON: The morale is pretty good there.

Mr. FISHER: It is my judgment that the morale on the Canadian Pacific Railway is higher. I think it is the whole question of an operation which seems to stand on its own two feet and pay its way, and one which seems to be in a perpetual deficit situation. I do not know about Mr. Benidickson's experience, but this is the most difficult thing I encounter with railroads, especially in respect of the persons in the C.N.R. who would like to take a great deal of pride in their organization but don't seem to be able to in a situation of repeated debts. On this sort of a balance, the Canadian Pacific Railway looks better.

Mr. LEWIS: Since we are expressing experiences, I do not imagine it would be any breach of anything if Mr. Fisher and I, even though we are of the same

party, did not entirely agree on this point. It has been my experience, acting for many unions of both railways and dealing frequently with the C.N.R. as well as the C.P.R. employees on committees and outside, that I have not seen this difference that has been referred to by Mr. Benidickson and Mr. Fisher. It may be, in certain areas, that this difference does exist.

Mr. FISHER: I will go further. I will say that many union officials prefer to deal with the C.N.R. They feel they get a fairer deal and more understanding with the C.N.R.; but this is not the area in which I am making the comparison.

Mr. BENIDICKSON: I have both railroads in my riding. I have been here a long time. Through those many years my experience is that there is more good will on the part of the C.P.R. employees to their management than there is on the part of the C.N.R. employees to their management, and I do not know why. The president knows I have been a strong defender—

Mr. SMITH (*Simcoe North*): I think we all tend to judge the morale in these matters by the numbers of complaints submitted. It occurs to me that the C.P.R. is a private enterprise entity, a private business, and the C.N.R. is a government owned railway; everybody owns a piece of it, as it were, and everybody tends to take their whacks at the C.N.R. either directly or through their members of parliament, because after all they are part owners of it. I think when you are making a comparison—which I am not admitting is valid—that you have to consider the fact that the C.N.R. is publicly owned; everybody owns a piece of it and everybody helps to pay the deficit as part of our national transportation policy. It is not a very fair comparison to say the morale on the C.P.R. is better, except, if Mr. Fisher's statement is correct, it is a nice endorsement for him to give private ownership.

Mr. FISHER: I would like to take it further than that. I think one of the reasons the morale is the way it is, is that—if I can use a bad word which I don't care for—the dichotomy between the Canadian National Railways' aims is the management.

Mr. GORDON: Will you tell us the meaning of the word?

Mr. FISHER: The split between your continued emphasis on running Canadian National Railways just as though it were a private business enterprise and the fact that it is a public service. Your whole theme since I have been before this committee continually has been that you want freedom to run this as a tough competitive business organization on the same basis as a private enterprise. That is the management policy theme. Yet, at the same time, we have the attitude that Mr. Smith has expressed fairly clearly that this is a public service railroad owned by the public and so you will get a different way of judging it and criticizing it. That is what I mean by the dichotomy.

Mr. GORDON: Perhaps I may be permitted a personal opinion. Let me say quite definitely that in terms of efficiency I am prepared to assert that taking it by and large the Canadian National Railways is as efficient as and even more efficient than the C.P.R. in any stage of its organization or operation.

Some Hon. MEMBERS: Hear, hear.

Mr. GORDON: I will match our operation in each field against the C.P.R. and, before you, state that we have a better organization and better result. I would go further and say that if we quit this kind of thing, the best test of our efficiency would come from our competitors. The Canadian Pacific Railway's general statements with regard to efficiency prove nothing.

Mr. BENIDICKSON: What would Mr. Crump say to that?

Mr. GORDON: Mr. Crump knows that the toughest competition he has comes from the C.N.R. Many times he has been prepared to state that he knows he has tough competition from the C.N.R.

Mr. BENIDICKSON: But he pays 52 per cent of his income on taxes, and you do not pay any taxes.

Mr. GORDON: We will when we earn profits. But, you are getting into a different phase altogether.

I might say that this discussion is very useful because it proves my point beyond doubt. I hope the Minister is listening and takes into account what I have to say when he is considering the question of our recapitalization scheme. Of course, we are in the position where we cannot keep our operating results clearly before the public, and these distortions, therefore, will arise due to the fact that there is not an opportunity to demonstrate to the public how good the organization is. I find I have to fight all the time against rather sneering remarks and general assumptions that because we have a deficit then, ipso facto, we are inefficient. This is not the case. Our current operations will match with the C.P.R. in any way you want to compare them, and if we only could get our balance sheet and income statement sorted out so that you get the meaning of our current results we would show a profit, and pay income tax, if you want us to.

Mr. BENIDICKSON: There is not a statute of the land that says that if you do make a profit it will come back into the consolidated revenue fund.

Mr. GORDON: But there is another statute that says we pay income tax, and so we do.

Mr. BENIDICKSON: But you have not.

Mr. GORDON: We pay other taxes. We pay \$19 million or \$20 million in taxes. We have not yet in this country arrived at the stage of paying income taxes on deficits.

Mr. BENIDICKSON: The C.P.R. pays taxes on \$37 million of profit, after taxes.

Mr. GORDON: What bearing has that on it? You are talking about two different things.

Mr. FISHER: Well, you have told us a number of times that what we should be worried about is the deficit. I read two years ago where you said:

It seems to me you should be much more concerned about how we are going to eliminate our deficit rather than whether we serve cafeteria meals.

Mr. GORDON: I wish you would worry along the same lines as I do. However, your worry is to find means of using the deficit as an argument that the C.N.R. is inefficient and, to use your own words, "perhaps the C.N.R. would benefit from a dose of C.P.R. management." I am saying that the C.N.R. would not benefit from a dose of C.P.R. management, neither the organization itself nor its employees—and for those who talk about morale on the C.N.R. I would like to have a vote taken as to whether the average C.N.R. employee would rather work for the C.N.R. or the C.P.R.—and I am talking now about day to day operations. And if you took the unions, union by union—and I accept what Mr. Lewis said entirely—you would find there is not the consideration given in the C.P.R. that there is in the C.N.R. in terms of human approach to problems in the railway; the C.N.R. is right in the forefront. It was through our suggestion in the last non-operating case that finally brought the matter into focus where it was possible to get an agreed conciliation report, and in this Mr. Lewis was a very distinguished member. We pioneered the thoughts and the ideas that went into that. So, do not tell me the morale is better; I do not believe it—and I am expressing a personal opinion supported by many others.

Mr. BENIDICKSON: Mine was to the contrary.

Mr. FISHER: So was mine.

Mr. BENEDICKSON: Perhaps that is just the attitude of an outsider.

The CHAIRMAN: We are really talking about personnel and labour relations and we have an item covering that subject later on. We might revert to freight services.

Mr. McDONALD (*Hamilton South*): I have one question under road-rail coordination. It would appear from the report that in Edmonton the system has a combined effort with regard to express, trucking and rail. In any event, there is a consolidation of effort under a single roof and I would like to ask if this is to be considered to mean that trucking will not be collateral to but a part of the whole system and that the expenses incurred in connection with the use of terminal sheds, sales and so on will be divided between the rail and trucking firms.

Mr. GORDON: You are referring to the paragraph on page 12.

Mr. McDONALD (*Hamilton South*): No, Mr. Gordon; I am referring to page 10 where it sets out "Road-rail co-ordination", which is under the subject we are discussing.

Mr. GORDON: Oh yes, I understand now. That paragraph has to do with the much broader question of the struggle we are having to determine how we are going to handle it on a basis which will give service and produce efficiency through the integration of express and less-carload freight traffic.

Mr. McDONALD (*Hamilton South*): Does L.C.L. freight service, as intended here, mean the freight you are hauling now by trucks?

Mr. GORDON: No.

Mr. McDONALD (*Hamilton South*): By rail?

Mr. GORDON: Yes. Less than carload freight is the term that describes the freight as it travels on the railway. We are now trying to work out a means whereby we provide the door to door service, which will include L.C.L. freight and the express, and it will be integrated in one large system. This is a big question, and it has been mentioned and discussed often.

If you would permit me to take a few minutes at this time I would like to deal with this matter in more detail and I would like to give you some idea of our thought processes in this because it is going to be one of the most difficult situations to bring about and to understand over the next few years until we get this accomplished.

If you would allow me a minute or two to sketch the background I would say that during the past two years there has been a decline in our volume in less than carload freight of about 60 per cent handled by the C.N.R. In other words, in 1951 we had a tonnage of 1,766,000 as compared with 634,000 tons in 1961. The commercial highway operator, able to undercut the railway rates for less-than-railroad consignments, has not only been gaining more and more of this traffic, but has been able, with the high revenues earned, to cross-subsidize return loads which otherwise would not be vulnerable to highway competition. Furthermore, because of the nature of highway operation, the trucker can in many instances provide a superior service to that provided by rail.

The general conclusion may be drawn that the railways are losing less-than-carload freight traffic because they are providing an inferior service at higher cost. In order to stem this erosion, the Canadian National must eliminate the existing differential between rail and highway transportation insofar as the quality-price of service relationship is concerned. A substantial improvement in the less-carload freight situation could best be obtained by, first, adopting a system for handling this type of traffic that would not only improve service but would reduce costs, and therefore instituting a parallel lowering of rates.

The Canadian National has numerous depots scattered throughout the country which handle less-carload freight. Many of these facilities are serviced by railway owned and/or privately owned cartage trucks which pick up and deliver traffic from the surrounding area and act as feeders for the rail cars berthed at the depot. A consignment originating at a way station is loaded into a freight car, which may subsequently be hauled to a main transshipment depot. Here, together with other consignments destined for the same area, it is loaded into another car for the main part of its journey. On arrival, if destined for still another way station, it is transferred to another rail car which takes it over the remaining distance. Thus, three cars and two cartage vehicles, in addition to two rail/rail and two road/rail transfers, have been involved in this one shipment.

Insofar as express traffic is concerned, historically this traffic developed because shippers were prepared to pay a higher rate for the sake of speedier delivery by passenger train. Over the years, the speed differential between main line passenger and freight trains has been narrowing. Moreover, there has been a trend toward a reduction in both frequency and extent of passenger services.

While it must be acknowledged that some traffic is tendered for movement in express service for specific reasons, studies have led to the conclusion that with an improved system of less-carload freight handling an amalgamation of these two types of traffic would be both feasible and advantageous.

The aim is take the best elements of the present express and less-carload freight services and provide one superior high speed service at rates competitive with other forms of transportation. The ultimate goal is to present to the shipping public one department and one form of documentation for all non-carload traffic. Prior to reaching this goal, however, radical changes must be planned and tested for a basic scheme of collection, transit and distribution across the country. Eventually it is anticipated that the railway will have a combination of rates and service on other-than carload traffic that will permit solicitation directed specifically to non-carload traffic with the same effort and cohesion that is now being expended on carload traffic.

In the course of carrying forth this plan, progress has already been made in certain areas on the necessary basic distributing plan for the various types of non-carload traffic. The term "railhead" is used to describe this plan, and involves the despatch of heavily laden rail cars to a centrally situated railhead location loaded with goods for various destinations, from which point final distribution is made, usually by highway vehicle.

The broad application of the railhead principle is being expanded across the country in varying degrees, consistent with the amount of freedom allowed by the individual provincial highway regulatory bodies.

Under the railhead proposal, it is the intention to eliminate a number of agencies at the smaller points and establish master agencies. The master agency would be a centralized freight and express handling station serving a defined area. It would be readily adaptable to the proposed integration of express and less carload freight. The concept of consolidating the workload of agencies should result in direct economies in administrative costs and provide the customer, at smaller points, with a service comparable to that in larger centres.

We are faced with all sorts of difficulties including local difficulties and traditional concepts of railway traffic in terms of labour difficulties as well as the difficulty of getting the unions to cooperate and recognize the value of consultation in these various areas.

As I said, what I intended to say here is, we are making headway and have achieved good understanding with the various unions with which we have discussed this principle. That is what we aim to do, and we hope to

accomplish that in the course of the next three or four years. When we have achieved that along with the adjustments that I have referred to in the form of the recapitalization and, having adopted the recommendations of the MacPherson report, we will have a Canadian National Railways system that will be able to pay its own way and show a profit.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I have some questions in respect of the highway services and this statement, but the question I initially asked was in respect of the trucking system carrying L.C.L., using the sheds and the facilities of the C.N.R. and not using the facilities of the Canadian National Transportation Limited. In other words, rather than duplicate the construction of terminals the trucking system is using the facilities of the railway system which are financed by the government.

Mr. GORDON: Of course, that is a very broad general statement. It is perfectly true that as we accomplish this coordination we will push together the express and L.C.L. facilities, and we will have to determine in that regard what the accounting adjustments are that must be made in relation thereto. It will be our effort, as is outlined in the MacPherson report, to keep separate as far as possible, the different types of accounting costs. I do not know how that will be done, but that is the aim as far as bookkeeping appraisals are concerned.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I shall reserve my questions in respect of the highway services item until we are considering it.

Mr. RIDEOUT: Mr. Chairman, I have received a number of complaints in the Atlantic region to the effect that because of this transition, or whatever is going to take place, a great many agencies will be closed up, or will be centralized. In other words, the C.N.R. will not be identified as such in a great many communities, as it is now, as a result of the establishment of station agents, is that correct?

Mr. GORDON: Yes, that is right. That will be the end result of this program. However, we will have as an aim, as part of the plan, the preservation of our identification in these communities in the form of contacts with the local people. We have something in the order of 1,400 agencies across the country which, in due course, will have to be lessened, if this plan works out well. There will have to be adjustments made in that respect. This will create one of our greatest problems, and we understand this situation.

Mr. RIDEOUT: Is it true that all the agencies will be disposed of with the exception of those involved in train operations?

Mr. GORDON: I do not know that I can identify the ones to be disposed of in that way. We intend to establish master agencies at strategic points which, I suppose, by definition, will be at main central points. We will also have satellite agencies which will work in connection with specific areas and, in addition, we will maintain contact with the truckers and the local people.

Mr. RIDEOUT: I have been authoritatively informed by individuals involved in this situation that in the maritime provinces there will be 176 agencies fewer than there are now as a result of the adoption of this plan.

Mr. GORDON: That may well be the case. We must face the facts of life. The adjustments that must be made in some cases will be painful but they must be made. I am not certifying the number you mentioned at this time because we have not completed our examination of this plan. However, there must be certain definite reductions in the number of way freight stations and agencies related thereto, because under this plan they will not be needed.

That is the essence of things to come. I have never found this job other than difficult. Some of these adjustments are painful to work out but unless we do work them out, and I want to make this very definite, we will not get

the traffic. Our traffic will fall steadily off as I have mentioned here. We have lost much of our L.C.L. traffic in the last few years. As a result of this the C.N.R., as a field of employment, will also shrink. What we must do at this time is take a step in the form of managerial planning not only to maintain the traffic that we have but to provide a competitive system that will increase the volume of traffic we have. If we can get the traffic, then our work force will have to maintain or increase in number, but certainly adjustments have to be made in order to ensure that we get that traffic.

Mr. RIDEOUT: I suppose I should not speak here as an employee, but the thought does occur to me that the Gypsum people, to be specific, in Hillsborough, have a train arriving every day to handle the terrific volume of business they have. I have discussed the situation with them and they have expressed pleasure and pride in the service. However, if we remove the agent located there we will not have a man available to look after their day to day problems as we do now.

Mr. GORDON: Do not jump to the conclusion that we are going to remove an agency just for the sake of removing it. If an agency is serving a useful purpose at a particular point it will be continued. We intend to remove those agencies only, the functions of which are no longer required. Certainly in respect of Hillsborough I do not know whether the agency will be removed there or not. We have not advanced far enough in the specific plan to be able to state that a specific agency is serving a useful purpose or not. If we find that an agency is fulfilling a useful role it will be maintained. One must remember that this transition is not going to take place overnight. Many of the proposed adjustments will take place in the form of attrition. In other words, the present incumbents in these positions will probably work out their time on the railway, but we will not be replacing them.

We will therefore be taking care of an increase in employment, we hope, in other directions at the expense of a reduction in this particular area of our employment field, just as we are doing everywhere across the railway. There are certain types of labour being displaced and others being increased. That is the cost of the changed environment in which we are operating.

Mr. RIDEOUT: I had hoped you would say no to the first question. However, let us put it this way: before you close an agency is it required by law that public notice must be given?

Mr. GORDON: No, that is not true in every case. It depends on circumstances. Whatever the steps are, we have to face them.

Mr. SMITH (*Simcoe North*): The railway does keep accurate records of the amount of business produced at each agency, does it not?

Mr. GORDON: Oh yes.

Mr. SMITH (*Simcoe North*): That would be one of the factors in determining whether or not agencies are closed.

Mr. GORDON: That is right.

Mr. RIDEOUT: So that they will not be abandoned except those which are operated for the sake of train operations? That is not true then, is it?

Mr. GORDON: I do not understand that general statement. The way you put it makes me suspicious that it is not correct.

Mr. RIDEOUT: I am again thinking of the employees. They are very much disturbed about this. I think the company should make a statement on it; that all agencies are going to be closed up except those which are involved in train operations.

Mr. GORDON: What I tried to say was that the railhead concept of it is based on the principle of bulk handling by rail between the larger points. When the distribution from those points is being made by highway vehicle, it

goes direct to points located along the route thus bypassing, wherever possible, the local stations. In reverse direction, onward consignments picked up by the highway units would be brought to the distribution points for dispatch. The concept embraces under one operation all less than carload freight, express, piggyback, road transport, as well as paperwork associated with the traffic. When we decide therefore where the master agency is going to be, that will be the dominating point for the particular area that it services.

Now, if the train operation is such that it will be more economical for us to go to that distribution point than to go forward, if there is enough traffic to go forward to an intermediate point, we will continue that service. However, if we find it is more economical to go to the central point or, as I call it, the master agency, and then break up the train,—remember under this concept we hope to be able to get a heavily loaded train brought to the master agency point—we break up that train, put the merchandise through the shed and distribute it, fanning it out through the area maybe to 50, 75 or 80 different points by truck depending on the area involved.

Mr. RIDEOUT: Is that what you are doing with L.C.L.?

Mr. GORDON: The same as we would like to do with L.C.L., but we are not doing it.

Mr. McDONALD (*Hamilton South*): You mentioned several times your master plan. You said "give us the opportunity and we will hire more people and have more employment". Is it not the case that people being employed in the country today are being employed by other means of transportation? This would merely be a transfer from the private sector to the public sector.

Mr. GORDON: That is quite right. It is a shift of labour. It is a choice between the C.N.R. being the employer or somebody else being the employer. It depends on how the switch is made. You can put it in another way; as the C.N.R. employment total goes down—as it has been going down—they are being employed elsewhere. We prefer to see the upward trend with the railway.

Mr. McDONALD (*Hamilton South*): On which section are we now?

Mr. PUGH: Mr. president, concerning this constant shrinkage in traffic, are you referring more to L.C.L.?

Mr. GORDON: Yes.

Mr. PUGH: You used the term "best served by rail or by truck"; are you contemplating extending your truck service?

Mr. GORDON: Yes, on the basis that I attempted to outline a few minutes ago.

Mr. PUGH: You used the expression "root, hog or die". You mentioned that we have to make an all-out effort if we are going to retain that traffic. Now, it would seem that your trucking service must increase in some areas.

Mr. GORDON: Mind you, that does not mean that we do that by buying out trucking companies. They do not have to be company-owned trucks. In many of these places we make contracts with private truckers, and indeed we have hundreds of them now who handle it in these specific locations.

Mr. BENIDICKSON: What is your present percentage on investment in trucks on the capital you put into buying trucking facilities? What income are you getting?

Mr. GORDON: I will come to that in a moment.

Mr. PUGH: You used the expression "constant shrinkage" in your traffic. When did that first become apparent?

Mr. GORDON: It became most noticeable round about 1956, but I think you could trace back the difficulties in regard to L.C.L. freight from a competitive point of view to about the last seven or eight years specifically.

Mr. PUGH: Does it fall into a pattern and get worse each year?

Mr. GORDON: Yes, based on the fact that as trucking has become more and more efficient in terms of ability to serve and more and more L.C.L. traffic tends to go to the trucking. As I outlined a moment ago, we start off with a shipment, we pick it up, bring it to a train, run it to a terminal point, change it from that train on to another train and then from there into another point to go to the freight; we are handling that particular package four, five or six times, not only handling the package but moving it from one mode of transportation to another three or four times. That is just inefficient as compared with what the truck is able to do as a transportation tool—

Mr. PUGH: Do you feel you are short of trucks at the present time?

Mr. GORDON: I do not think so. I think we are adequately served as we stand now, but as we get on with this coordination and establish a traffic, our service is likely to improve.

Mr. BENIDICKSON: Would you require a vote from parliament?

Mr. GORDON: We would not require a parliamentary vote if we were making rental arrangements with other truckers. I would like to put these figures on the record. We have 1,155 contracts with local truckers now which perform pick-up and delivery service across the system. We have 70 contracts with outside truckers for highway over-the-road services. I think that demonstrates that we are using and intend to use the private trucker when we can demonstrate to ourselves that we can get a reasonable cost in connection with it. It is only when we find that by owning the trucking services ourselves, as it fits into it, that we can do a better job from a cost point of view, that we want to expand our trucking operations.

Mr. PUGH: It would seem to me that this sort of constant shrinkage in traffic over a period of years has now established a developed pattern, and if it is a question of where your competition comes from and the reason for it, it is the fact of the private trucking system.

Mr. GORDON: We have also got to the point of feeling this ourselves, that we should have been able to stop this earlier than we have.

Mr. PUGH: But the question is how to stop it.

Mr. GORDON: By providing a service which is competitive, and by waking up to the fact that we are in competition as compared to the type of operation I have just described. In order for us to do this, we in the Canadian National Railways have been particularly handicapped by reason of the difficulty we have had in order to obtain the transfer licenses in respect of our trucking operations. We have been before the Quebec Transport Board going on two years now and we have not been able to integrate the trucking services we have put into service in the last two years by reason of the opposition against us.

Mr. PUGH: You mentioned Quebec specifically. Is private trucking on the increase in the province of Quebec as a result of this?

Mr. GORDON: I cannot answer that specifically. My impression is that it has not shown an important increase in the last couple of years.

Mr. RIDEOUT: Is it not true that the thing which forces the railways into this is the fact that the trucker has in the past few years been taking the cream of the traffic, has been moving, let us say, the cornflakes and the shredded wheat, but not the potatoes.

Mr. GORDON: I am glad you raised that point because along with other things with respect to it is that of being much more specific about this term loadability.

What is difficult is that the truckers have taken the high rated traffic which they can handle conveniently in trucks, while leaving the railways with the big, bulky type of packages which weigh very little but still fill up a box car, so in the process of adjustment we will have to face that problem before we get a fair ratio in terms of loadability of the particular type of traffic.

Mr. CARTER: That was the point I was going to raise, but I would pursue it further. When you initiate this new service where you collect freight from a number of points and bring it to a central shipping point, and from there to another central point and then distribute it—when you initiate that service, how are you going to determine the tariff, the freight charge? Will you be able to use the scales which you have now, or would you have to develop new scales, an over-all freight rate charge for a complete service? Would you have to go before the board of transport commissioners to get authorization for that, or can you do it freely, and develop your own charges as circumstances demand?

Mr. GORDON: That is one of the problems inherent in this whole operation: how do we do it? As I understand it, it is full of legal entanglements. Until the MacPherson report is implemented and we can see how much freedom we have in setting rates so that we can determine what is a fair rate, we must offer a rate which will be competitive if we are going to get traffic.

In quite a number of areas we could handle the entire traffic—but I do not want you to think that railway management is out to gobble up all the traffic. We do not want to do that. We only want to get the traffic we are particularly suited to handle, and therefore it will be more competitive. There will still be plenty of traffic for the private trucker to go on giving a type of service that we cannot give. We want to use the plant and the facilities which we have, if we can do so efficiently and make money out of it.

Mr. CARTER: Your present freight tariff has been calculated on a totally different basis as compared with the new L.C.L.'s.

Mr. GORDON: That is right, it is usually on a station to station basis.

Mr. CARTER: Will the increased efficiency of this new service, as you put it in, where you handle a package only once instead of four or five times, enable you to operate within your present set of tariffs, or would you have to develop a whole new set?

Mr. GORDON: If we get the express married to the L.C.L., we will have to develop a new set of rates, because the two things right now are completely dissimilar. One of our problems is the question of there being one document which would cover that type of traffic, because specifically it has been a different type of operation and collection, and this will be a big question.

I am not suggesting for one moment that we will solve it between now and the next committee, but we have embarked upon it.

We shall aim in the direction of getting one tariff for it. That, of course, will need a lot of research and analysis before we may blend the express and the L.C.L. freight rates along the line that you have mentioned.

Mr. McDONALD (*Hamilton South*): May I take it from your statement that whenever it suits the purpose of the Canadian National Railways, they will endeavour to buy private truckers, thus transferring people from private enterprise to government controlled railways? I might say that I think you are under a handicap because you are not in the free enterprise sector.

Being a Conservative I am not a believer in government control, and I am very much afraid Canadian National Railways is moving into a field that they should not be in, while being financed by the Canadian government. You may be under a handicap by not having the proper recapitalization; but still it is true that many millions of dollars are being poured into the public

sector of the railroad, and it seems that the people of Canada through the railroad are being put in direct competition with private enterprise and the trucking system.

My other point is that in 1952, in your recapitalization—was it not—you indicated then that the trucking sector of the community was taking over more of the L.C.L. freight business. Was this not part of the recommendation to the government of that day for recapitalization, in order to bring it more into focus in the public mind, and that we may be doing a more efficient job?

Mr. GORDON: I do not recall your last comment. I would have to look it up. I suspect from the way you put it that it is out of context somewhere. But dealing with your first point: let me say quite definitely that there is no organization in Canada more dedicated to the free enterprise principle than the Canadian National Railways; there is no organization that is purer in that respect than the Canadian National Railways for the very reasons that you mentioned.

Mr. BENIDICKSON: Except that it does not get its money from the free enterprise system but from the government.

Mr. GORDON: If it were not for the fact that we were running a railway business, based on the free enterprise principle, we would put any form of transportation out of business. The Canadian Pacific, our main competitors, recognize this. They recognize that if we were to start in and use the public purse willy-nilly, we could put them out of business. We have not done that or tried to do so. Therefore our competitive rates are still competitive in respect of current costs, and we do not intend to get away from that. Moreover the fact that the Canadian National Railways are operating on private enterprise principles so called is not the policy of the present management, but rather it is inherent in the organization of the Canadian National Railways as it was passed into legislation.

When the legislation for the Canadian National Railways was passed, the railways were vested in a board of directors for management and operation on the basis of the free enterprise principle. If you will read the debates at the time the Canadian National Railways was formed you will find that several sections of political opinion expressed the definite thought that that was the way they wanted to see the Canadian National Railways run; and I think that principle has continued within my time to carry out the general approach that the Canadian National Railways will operate on free enterprise principle. I have said many times that the existence of the C.N.R. is not an experiment in socialism at all.

Mr. McDONALD (*Hamilton South*): I hope not.

Mr. FISHER: So do I.

Mr. GORDON: I do not say for a moment that it should not be. It is up to those who hold ideas along that line to make themselves felt. It is an operation following free enterprise principles. So long as I have anything to do with it, that is the way it will be run.

Mr. BENIDICKSON: Mr. Chairman, we are apparently still on freight services. We have overlapped a little, I think, on to highway services in the last half hour.

The CHAIRMAN: I think we have been into personnel and labour as well as other things and perhaps this will shorten our discussion when we reach those items.

Mr. BENIDICKSON: I am very concerned with the most recent remarks of the president when he says that we do not in the C.N.R. use the public purse willy-nilly. I think yesterday and today members of the committee will

understand that my concern has been on that point. I do think there is a difference between stern financing for a private corporation and a possibility of this road using the public purse willy-nilly. I happened to have been associated with those who explained to parliament in 1952 that if we wiped off the debt of the C.N.R. some \$750 million, that otherwise would bear an interest charge and become part of the annual deficit, that we would have new morale and new health in the C.N.R. In subsequent years I have had something to do with recommending to parliament certain capital expenditures of the railroad.

Now it is three sessions of this committee since I asked for a 10-year summary of the total of new capital which has been provided—I do not know whether willy-nilly or not—since 1952 by parliament and by the taxpayers to the Canadian National Railways. I think my remarks are relevant, because I think everybody will recognize that a good part of the capital expenditures were made on dieselization and on the acquisition of equipment that basically was for freight services, because I think the president has always said that passenger service is a gift to the public and not in itself very profitable to the road. There is a strong hint that write-off of the obligation of pay interest on capital injection is going to be asked either of this administration or the one that will perhaps succeed it soon. I think parliamentarians are concerned about this.

I thought in the discussion that we had got into the next section on highway services. I have to leave in order to attend another meeting. I have endeavoured to be as persuasive as I could here. With regard to highway services, both railways have had a program embodying a tremendous amount of capital funds in order to get into the business of trucking. I do not know whether that is \$25 million or \$50 million, or what it is; but I do want to know something about it.

Mr. McDONALD (*Hamilton South*): Are we on highway services now?

Mr. BENIDICKSON: It is freight services. It was indicated that certain accounts were being affected by utilization of something other than rail service. Now, I know over the years that we have been asked in our budget, as we will be in this case, to approve funds for acquisition of trucks. How much does that amount to, gross, to date?

Mr. GORDON: It is in the report.

Mr. BENIDICKSON: All right. What is in the report.

Mr. GORDON: Look at page 12. It is spelled right out there in a paragraph.

Mr. BENIDICKSON: How many millions?

Mr. GORDON: It is \$11.9 million at the end of 1961 and an additional \$3.7 million was on deposit to meet commitments.

Mr. BENIDICKSON: At times in recent years you have asked the government to borrow on your behalf and the government has had to pay the public on guaranteed bonds for the C.N.R. at a rate of interest in excess of 5 per cent.

Mr. GORDON: The government has what?

Mr. BENIDICKSON: The government has been asked to finance your capital requirements in the market place. The government itself in recent years has had to pay to the public—

Mr. GORDON: No.

Mr. BENIDICKSON: In 1959 the government was paying on 90-day money 6.62 per cent.

Mr. GORDON: Yes, but they were not paying the interest on our outstanding debt. If you look at page 27 you will see our outstanding debt, and you will also see on page 25 that we paid out in interest chargeable to our operations

a total of 72,987,000. We paid the interest on that. \$10 million roughly was on behalf of loans to T.C.A. The net interest that the Canadian National paid on the outstanding debt last year was \$62,500,000. The government did not pay that.

Mr. BENIDICKSON: The deficit is paid by the government.

Mr. GORDON: Whatever the deficit is.

Mr. BENIDICKSON: Would you say in recent years that by reason of the guarantee given on your financing we have not paid interest in excess of 5 per cent for financing of your requirements.

Mr. GORDON: I am sorry, Mr. Chairman, I cannot follow the question.

The CHAIRMAN: I cannot follow it exactly either. I think you have answered it. The amount Mr. Benidickson is speaking of which really helped to make up the deficit of the railroad came out of operations. What the government borrows, it is quite true, is 90-day loans, but that is for over-all general purposes.

Mr. BENIDICKSON: I think the committee is quite aware that in recent years the cost of money even for the government has exceeded 5 per cent.

On page 12 you say that the investment in trucks amounts to \$11 million. That conceivably is bearing interest of between 4 and 5 per cent. Now, I think yesterday the president indicated that he calculated the profit of these operations was in the nature of \$112,000.

Mr. GORDON: It is right in the same paragraph. Net profit for the over-all operation was \$131,000.

Mr. BENIDICKSON: That does not pay 4 per cent on the capital.

Mr. GORDON: I tried to explain at the same time that we have not had an opportunity of getting our trucking operations on a basis where they have an opportunity to demonstrate their profitability. We have been held up by legal matters, and things of this kind, so that we have not been able to get these companies operating on a profitable basis.

Mr. BENIDICKSON: I referred to the number of vice presidents. We had reference to morale. I deal with employees and they do think that the number of vice presidents has increased tremendously, and that the brass has gone up tremendously and that the number of employees has come down, and so on. Perhaps it is not a proper question to ask specifically for the wages paid to senior officers of the road. I think over the years it has been considered that that involves some competitive embarrassment that might result in release of information to your competitors that is not desirable. However, might I get from the president, while we are sitting here in committee, perhaps a broad scale—

Mr. FISHER: If I might interject, I would ask Mr. Benidickson to look at railway transportation employment statistics. He would find that for executive officers and assistants the average salary of the C.N.R. last year was \$7,800 and \$9,300 in the case of the C.P.R. So that will give you a rough comparison of executive positions.

Mr. BENIDICKSON: Yes, but with thanks to you, Mr. Fisher, I was going to relate my question to the 17 vice presidents and ask if the committee could be informed of the range of payments between one and the other of the 17. I do not want the average but the scale of payment.

Mr. LEWIS: Mr. Fisher read from the 1958 record.

Mr. FISHER: Yes, I thought I was reading from another record.

Let me give you the 1961 figures now. In the case of the C.N.R. it was \$8,890 and in the case of the C.P.R. \$10,343.

Mr. PUGH: Under what heading is that?

Mr. FISHER: "Executive officers and assistants", and it gives the average annual salary.

Mr. BENIDICKSON: But that is not my question.

Mr. FISHER: I am not saying it was.

Mr. BENIDICKSON: In regard to the 17 vice presidents, could we obtain information as to what is the lowest payment made to a vice president, and then the highest?

The CHAIRMAN: I do not know about that Mr. Benidickson. I think that came up last year and I do not think it was answered. I really do not think you expect an answer to it.

Mr. FISHER: I could go further into this along the line Mr. Benidickson is interested in and ask further questions. This all revolves around the question of the Indians and chiefs.

The CHAIRMAN: That should come under personnel and labour.

Mr. FISHER: I agree, but if we are going to go on with it, Mr. Lewis and I are quite interested.

The CHAIRMAN: Members have been given a great deal of latitude so far, although I do realize that you are attempting to adhere to the rules.

Mr. FISHER: I would like to revert to the freight service.

The CHAIRMAN: Then, proceed, and we will come to personnel and labour later on.

If I might interrupt, I believe that Mr. Carter had a question first.

Mr. CARTER: I have one question to direct before we get too far away from this trucking business.

Mr. Gordon has told us that he has not been able to get into full operation the railway owned trucking system. Have you had sufficient experience with your own trucks which you have been able to operate to determine whether, under similar circumstances, it is better to own your own trucking system or to make contracts with outside trucking firms?

Mr. GORDON: Yes, we have. It depends on the circumstances, as I say. I placed on the record a few moments ago the number of independent contracts we have with local truckers. We will continue to expand these if we find out the local situation fits in with the railway requirements. The trucking companies we have acquired so far have been acquired on the basis of running a sort of long distance service which would belong to that part of our transportation operation. I think these local trucking requirements lend themselves better to using the private trucker and making contracts with him. But on some of the long distance runs on which we are going to give door to door service we need to operate our own trucks. There is a collateral advantage in that because, by having long distance operations or, at least, enough to provide a service in respect of them, we get the benefit of the piggyback operation which flows with that, and we have a chance of getting that business if we own the trucking line. However, we do not have in mind a major expansion of railway owned trucking. There may be one or two situations which we are examining, but we do not have in mind any major increase in our own railway trucking operation.

Mr. CARTER: Is it just for certain specialized type of service it is better to own your own?

Mr. GORDON: Yes. We have \$11,900,000 in it now; \$15 million, in all, committed at this time, and that is very little in terms of the size of the operation we are trying to do. The figure I quoted yesterday in regard to the

traceable traffic in these trucking operations is only about \$20 million out of a grand total of \$715 million total revenue.

Mr. BENIDICKSON: But you have to take into consideration the cost of money at 5 per cent?

Mr. FISHER: Mr. Benidickson's homily in free enterprise is terribly tempting in view of the fact he has been going around and calling for master grain handling plans, interlocking transport developments and so on which would extend complementary services rather than what I would take to be the overriding principle of free enterprise, which is competition at any cost.

Mr. GORDON: Is this a question?

Mr. FISHER: No, it is not a question. It is just a little homily. Mr. Benidickson is in the mid-twentieth century in some of his actions but he does not quite recognize it yet.

Mr. GORDON: I will listen to the opinions of others who may regard it in a different way.

Mr. FISHER: I would like to ask Mr. Demcoe a question—and I hope Mr. Gordon does not mind; it relates really to freight service and it is an operating problem which has concerned us in our particular region. Between Capreol and Winnipeg there are seven divisional points and one of the things which always has been a problem has been which ones are going to have some kind of permanence with the new kind of freight service you are evolving, and particularly in relation to where the railway heads are going to live. We know Redditt and Armstrong are not divisional points in the true sense of the word. However, the concentration has been in Winnipeg and Sioux Lookout. As I said, there are seven divisional points between Capreol and Winnipeg and you cannot work out an even schedule. The question I would like to have answered is this: has the development which has taken place with your new train schedules enabled you to determine a pattern as to where you are likely to concentrate your plan in relation to these proper divisional points. It is my contention that Foleyet and Redditt are no longer what you call division points.

Mr. DEMCOE: Well, starting from Capreol: Foleyet, Hornepayne—

Mr. FISHER: Nakina, Armstrong, Sioux Lookout and Winnipeg.

Mr. DEMCOE: Yes. As you are aware, the subdivisional points were set at 100 or 150 miles apart because, in the steam days, that was the approximate distance we could operate a train within eight, ten or twelve hours. But now, with dieselization, we can operate that particular length of the territory within three or four and up to five hours and, therefore, the crews could make from 200 up to 300 miles in an eight, nine or ten hour day. In certain cases we have cut out the intermediate points, as in the case of the one you stated, which is Redditt. It is true we are looking also into other localities where we can extend our runs in order to cut out stopping at the intermediate points because as soon as you stop at any intermediate point and change crews you waste anywhere from one half hour to one and a half hours getting orders, inspecting the train and other various duties.

Now, in regard to the question you asked as to just what we are going to do between Capreol and Winnipeg, this is something we are working on at the present time. In regard to that seventh territory perhaps we will have to continue operating one short subdivision. Then again, it is quite possible we might be able to set up a change off point at the intermediate point which is probably half way between Armstrong and Nakina. However, that is something we have not developed up to the present time.

Mr. FISHER: I would like to ask you what provisions there are under the contracts with the running trades for a period of review or for consultation? Is any consultation likely to come up or have you the right under the contract just to present them with a change.

Mr. DEMCOE: We have the right to make the change but, ordinarily speaking, we always discuss the matter with the general chairman, outlining what we propose to do and ask for suggestions as to how we can improve our service and performance while at the same time reducing our costs.

Mr. FISHER: I should like to ask you a specific question at this point.

In the forthcoming projected year is there any plan to make a change in relation to these divisions that will materially affect the people working at Nakina and at Hornepayne?

Mr. DEMCOE: No. Mr. Gonder, our vice-president at Winnipeg, has requested that we have discussions as to just what we should do, but we have no definite plan in this regard at the present time.

Mr. FISHER: I should like to make a request to the president, and I appreciate why there is no answer forthcoming, and that is, that if a major change in that area is to take place, would the company consider releasing the news of such a change and other information in relation to it in public at some kind of a hearing or meeting at the place affected? This would fall, of course, in the area of public relations.

Mr. GORDON: I do not think I can give you a hard and fast commitment in that regard. As Mr. Demcoe says, we have always as a matter of company policy followed the procedure of discussing the situation with the union leaders and leading men in the community, inviting them to make suggestions. I know of one or two occasions in my experience where we have accepted suggestions in this regard. When you ask in a general way if we would consider releasing the news in public to the community, I do not think I can make a promise, because we would then be asking for a lot of hubbub that may completely be unnecessary after having specific discussions. It would not matter what our suggestion was, the mayor or the president of the chamber of commerce, or the president of the board of trade would feel obliged to protest. These gentlemen would feel that they were obliged to take exception to any suggestion no matter what it was. This whole situation involves a matter of timing.

I would certainly say that when we are far enough advanced in our discussions with the people involved, and when we have our plan quite clear in our minds, the information will be announced at a proper time, but we certainly will not announce it so as to cause an unnecessary amount of harm, or before we have a specific plan worked out.

Mr. FISHER: I should like to draw your attention, Mr. Gordon, to the fact that in many communities land values and real estate values including housing, for example, have had the bottom drop out because of the uncertainty. I would put that statement to you in explanation of the reason, or at least one of the reasons for my request.

Mr. GORDON: I realize that and I sympathize with you. However, as against that I feel that a general statement such as you have suggested will not cure the uncertainty. On the contrary, such a general statement seems to make things more uncertain than they are when we are able to announce a specific plan. I suppose in the nature of things this can hardly be avoided, but there is a great deal of trouble stirred up in advance of anything that we do. I suppose some individuals have an interest in stirring up rumours because they affect real estate value and create a business advantage to them, but we will never be able to stop that kind of thing.

The only thing I can promise is that we will take as reasonable an approach as we are able in advising people affected by any change that must take place.

We did issue a management guide bulletin in respect of this situation, and the following statement is made in that bulletin. I am having a little trouble with my throat. Perhaps Mr. Vaughan could read this.

Mr. VAUGHAN: The statement is as follows:

It is System policy to inform union officers fully and frankly of plans and decisions which will have important effects on schedule employees, to do so as far in advance of actual changes as possible, and before discussion with employees concerned.

That is the statement of the general principles followed.

Mr. LEWIS: Mr. Gordon, I do not think the difficulty you have mentioned would be quite the same in respect of discussions with the general chairman.

Mr. GORDON: Yes, but they represent the employees and are continually discussing things with them.

Mr. LEWIS: With respect to the general chairman, I do not think they would resent this at all. I do not think they would resent a policy being developed whereby before discussions were completed a committee of the people of the community affected would be brought in as a regular matter to discuss the situation. On the contrary, I suspect that such a policy would do a great deal toward reducing the apprehension and fears involved.

Mr. GORDON: Of course, this depends again on the specific thing that is under discussion. For instance, in respect of our organization plans two years ago when we decided upon the location of the area headquarters, we had meetings with each one of the leaders of the communities, discussing the situation with the mayors and other representative citizens, and there was a very good understanding arrived at as to what we had in mind. That is a general policy that I think it is possible to follow. My only concern in this regard arises because of the fact that I do not make promises unless I intend to keep them, and when I make a promise I make certain I do keep it unless that is impossible because of causes completely beyond my control.

I cannot agree to follow the suggestion of making a general statement, as Mr. Fisher has suggested, but we will do what we can in this regard as far as possible, and as far as the specific circumstances will allow.

Mr. FISHER: I would still like to get some idea as to the changes to be made, but if that information is not available I guess it is just not available.

Mr. GORDON: Let me say this to you. More than ever before these local situations are left to the authority and the responsibility of the local officials. Our decentralization plans makes the vice president in charge of the region concerned the person who will make these local arrangements, and this responsibility finally feeds down to the local managers. They are the individuals who contact the local people in making decisions of this kind.

Mr. FISHER: In other words Mr. Gonder is the man involved as far as I am concerned?

Mr. GORDON: Yes, Mr. Gonder is the man to talk to. I think you will find Mr. Gonder is a very understanding and sympathetic fellow. He will do his best to meet any point of difficulty that you refer to him.

Mr. FISHER: I have another question I should like to ask in relation to agreed charges and the percentage of your revenue traffic in freight that is now hauled under agreed charges.

Mr. VAUGHAN: I think it is in the neighbourhood of \$70 million.

Mr. GORDON: Just one moment now. I want to make sure of these figures. That is a close figure. It is within \$200,000 roughly. \$70 million is a round figure and represents a little under ten per cent of our system's revenue.

Mr. FISHER: Has this figure been increasing steadily? I know the number of charges has been increasing.

Mr. VAUGHAN: This is from the way bill analysis. It applies to all Canadian railroads. In 1955 it has gone from 4.90 per cent up to 12.9 per cent in ton miles.

Mr. FISHER: Given this trend, why were these incentive carload freight rates necessary in Ontario and Quebec rather than as an extension of agreed charges?

Mr. GORDON: Because they are two entirely different things. The incentive freight rate is designed for the purpose of giving an incentive to increase the loading in the individual box car. It has nothing to do with the bargain that we make on an agreed charge which is basically that we say to an individual shipper: if you agree to ship X per cent of your total transportation production by railway, then we can quote a rate that will cover your over-all transportation. However, an incentive charge is something that is available to anyone, and any shipper who will meet our requirements in the matter of the load which he will put into an individual box car—because the bigger the load in the box car the better for us—will have an incentive to load the box car to the maximum possible extent. That is basically the reason for the incentive rate.

Mr. LEWIS: That is for less than carload?

Mr. GORDON: We put it on a poundage basis.

Mr. FISHER: We will be able to judge the incentive rates for the future in the waybill analysis.

Mr. VAUGHAN: The waybill analysis breaks it down into total class rate, competitive rates, and so on. I cannot see how we can produce what you ask for the way they are doing it now.

Mr. FISHER: Were these incentive rates worked out by the railway association?

Mr. GORDON: Yes, the rates that all railways give.

Mr. LEWIS: Were they interested in it only in 1961?

Mr. GORDON: My recollection is that it was before that. It was started several years ago.

Mr. VAUGHAN: There was a court case on it, and after the court adjudicated on the rights of the railways to instigate these types of rates, then the way was clear.

Mr. FISHER: One final question on freight rates. Is the rate agreement or the contract agreement entered into with the iron ore shippers for a period of years, or is it set now until there is some new negotiation?

Mr. GORDON: I should remember this.

Mr. VAUGHAN: The agreed charge was filed. I can get you a copy.

Mr. GORDON: He is asking about the timing. My recollection is there was no timing on it; it was based on tonnage.

Mr. FISHER: This question created a great deal of discussion and lobbying and concern in at least two ridings, Mr. Benidickson's and my own. What was the factor that took so long to be threshed out?

Mr. GORDON: There was a disagreement between the Steep Rock people and ourselves as to the meaning of the first bargain we made. Our insistence was that the rate was quoted fundamentally on a basis of an over-all tonnage to be shipped out over a period of time, and in the event that that tonnage did

not eventuate we took the stand that since we did not get the tonnage at the level we had agreed upon, we felt we had to increase the rate. Then we got into a very difficult argument with them both in regard to interpretation of the agreement and justification of the rate.

In the result, however, after a good deal of discussion and some painful interviews, we did work out a settlement on it, although we gave them the right rate in the beginning in case they might want to take the case before the Board of Transport Commissioners. However, when we got together we worked out an agreement which they have accepted as satisfactory.

Mr. FISHER: One of the things involved in their particular case is the fact that there has been a drop in the rates of four main shippers from the competitors down south in the United States; and if there is a further drop in the rates charged to American shippers, might I ask if the Canadian National Railways would consider a further revision in those rates?

Mr. GORDON: Not necessarily, although we would be quite sympathetic in the discussion of the general principle. We try as much as possible to allow a shipper to reach his market on a competitive basis, but we also keep our eyes on the basis of the first agreement because of the exposure to us of the rate from the Missabii range to Duluth and Superior. In this case, however, we are not committed to follow the rate down. We have established a Canadian rate, and if there is a serious competitive factor arising, it will be open to the company to come to us and show the effect of it, and then we will have to decide in terms of our own costing arrangements whether we can afford to go any further. Maybe we cannot, because we are in it pretty narrowly now.

The CHAIRMAN: We are going to adjourn at 5:30. If Mr. Fisher has no more questions, then Mr. Robinson will have the floor.

Mr. ROBINSON: I have a question under passenger service.

The CHAIRMAN: Shall we pass freight service now? We have been pretty much on highways and other things on this, but can we pass freight service?

Mr. SMITH (*Simcoe-North*): I have two or three questions under piggyback service.

Mr. FISHER: Let us assume that they come under highway services. Let us pass freight service.

The CHAIRMAN: Yes, they can be discussed under highway service just as well.

Mr. Robinson, what is your question?

Mr. ROBINSON: My question concerns passenger service. Are we going on to passenger service?

The CHAIRMAN: No. We are still on highway services, page 10, and then passenger service.

Mr. SMITH (*Simcoe-North*): I have a few questions concerning piggyback service. Do the railroads accept piggyback trailers from any shipper who proffers them?

Mr. GORDON: Yes, at the rate which applies to the particular type of shipment. We did not always do this, but we do it now.

Mr. SMITH (*Simcoe-North*): Now you consider yourself a common carrier in relation to the piggybacks?

Mr. GORDON: We are not admitting that we are a common carrier, but we treat it as if we were.

Mr. SMITH (*Simcoe-North*): What is the differential in the rates between plan 1 and plan 2?

Mr. GORDON: Have you got them here?

Mr. RIDEOUT: Have you ever found a piggyback loaded which was filled and emptied?

Mr. GORDON: That would be fraud.

Mr. VAUGHAN: Plan 1 is the one in which we carry commercial traffic, while plan 2 embraces our own trailers, railway-owned trailers.

Mr. GORDON: There is a question of the differential in the rates.

Mr. VAUGHAN: We would be carrying our own equipment.

Mr. SMITH (*Simcoe North*): When you mention plan 1, does that include a piggyback from, let us say, Midland to Superior or Fort Frances?

Mr. VAUGHAN: That is plan 1.

Mr. SMITH (*Simcoe North*): You say that is plan 1, with one of your own piggybacks?

Mr. VAUGHAN: That would be plan 2.

Mr. GORDON: Plan 1 is for commercial trucks, while plan 2 is for the railway-owned trucks, and in addition there are plans 3, 4, and 5, but we have not got them all working.

Mr. SMITH (*Simcoe North*): Hoar Transport is owned by the Canadian National Railways, and if they produced a piggyback, would it come under plan 1 or under plan 2?

Mr. GORDON: Mr. Smith, I would like to answer your question in the morning. We are in disagreement among ourselves.

Mr. SMITH (*Simcoe North*): I would like to know, for instance, if Hoar has very much shipping with piggybacks.

Mr. GORDON: You want to know whether or not these subsidiaries of ours get the commercial rate or the railway trailer rate?

Mr. SMITH (*Simcoe North*): Yes; whether they get a preferred rate.

Mr. GORDON: I will have that information for you in the morning.

Mr. McDONALD (*Hamilton South*): Mr. Gordon, I might point out that during the first part of the hearings, in one of your remarks, I think you stated that I had some contact with the trucking business. I want to make it clear right now that I have no connection with the trucking business, nor am I associated with, or a director of, any company.

Mr. GORDON: I did not make that statement. I think the way it came out was that I asked you whether you were related. I did not know.

Mr. FISHER: Some of my best friends are truckers.

Mr. McDONALD (*Hamilton South*): You also gave us a little bit of enlightenment to the effect that the trucking business had benefited by the C.N.R.'s entry into the trucking field. On the 10th of October this year, a report appeared in the *Gazette* to the effect that the C.N.R. was charged with four illegalities for transporting merchandise by truck into the Montreal area. This charge was made against the C.N.R. and approval was given by the judge that the C.N.R. appear in court on October 23 for illegally hauling merchandise between Montreal, Laprairie, St. John, St. Remi and Rawdon. I just do not want the idea to get around that everyone in every industry is illegal or unethical. I take exception to that statement.

Mr. GORDON: Wait a minute. This was one of the disputes that arose from the transport board hearing.

Mr. McDONALD (*Hamilton South*): Excuse me. I understand that this is over and above the Supreme Court decision on the Railway Act.

Mr. GORDON: The point of issue here is that there is a very definite difference of opinion between the legal department of the C.N.R. and the authorities that have laid the charge as to whether or not we have the right to operate those trucks. We believe we have the right, and we welcome the opportunity of being prosecuted in order to establish what our rights are.

An Hon. MEMBER: A test case.

Mr. McDONALD (*Hamilton South*): You deliberately went ahead and did this to test it through the courts of Quebec.

Mr. GORDON: It is a test case.

Mr. McDONALD (*Hamilton South*): At no other time have your trucks been charged with illegalities in Quebec or in any other province?

Mr. GORDON: I cannot answer that in detail. I am quite sure some of our truck drivers will break the law some time. I was making a general statement that the ethics have been improved by the admixture of the high level operation of the C.N.R., and I stick to that.

Mr. McDONALD (*Hamilton South*): There are a couple of questions I wish to ask which will probably take us beyond five-thirty. You have talked about a master plan, an integration of the truck and rail services to give to the shipper a better service. In 1958 you came to this committee and were asked by Mr. Chevrier whether or not you wanted to be in the trucking business.

In essence, you gave him the answer that the trucking business would be a collateral arm of the railway system, and I think the allocation of money at that time was something of the order of \$5 million. The thing that is worrying me is that I believe the C.N.R. intends to go into the trucking business in a very big way, or it would have come to this committee and explained the over-all master plan at that time and not sloughed it off as the collateral arm of the railway. My interpretation of collateral arm is that you would run trucks in conjunction with the railway over rail abandoned lines and other things which might serve your purpose.

Mr. GORDON: Not necessarily rail owned trucks.

Mr. McDONALD (*Hamilton South*): Then in 1959, in answering certain questions of Mr. Chevrier, again you indicated there was \$15 million in an item in the budget for the acquisition of trucks; but, it was a permissive item only and, I take it, you were contemplating something but really did not know right then what you were going to do.

Mr. GORDON: Right.

Mr. McDONALD (*Hamilton South*): Because of this lack of interpretation of where you are going, I have a fear in my mind you are trying to take over the trucking and transportation industry for the C.N.R. because, since 1958, there has been some way to squeeze into the trucking business. The question I would like to ask at this time is this: Is it the intention of the C.N.R., as indicated in your speech at the C.N.E. exhibition, to designate areas in the country where you would try to get the exclusive right of transporting by trucks to railheads and, therefore, take over the private sector of the transportation industry?

Mr. GORDON: I am beginning to realize I had better stop making speeches. It would give me a wonderful alibi.

The point is that nothing has happened since 1958 that disturbs the basic concept that we can regard trucking as a collateral arm of the railway. I made a complete explanation of that in regard to the master agency plan. We do plan to use the railway so that we can load on it for long distances on the main lines and come to a master agency point and then use trucks from there to

deliver the cargo or traffic. In connection with that distribution of traffic at master agency points we will not necessarily own the trucks at all. As far as I am concerned I would like as much as possible not to own them, if for no other reason than I have to come to this committee. But we have no intention of doing what you have in mind; that is, trying to push ourselves into a situation where we take over the trucking industry.

Mr. McDONALD (*Hamilton South*): Your railhead proposition, as you indicated in your merchandising service or sales plan, was to bring in L.C.L. freight by short haul to railheads.

Mr. GORDON: Yes.

Mr. McDONALD (*Hamilton South*): In the first instance, you bought the rights or the franchise of a company, not necessarily their capital equipment, so as to transport in long haul situations parallel to railway lines which already were operating in the long haul business. This is what gave me the first indication that you are going into competition with the trucking business or trying to take them over in this instance.

In your statement on merchandizing services you said you would bring in the short haul, less than carload freight, to the railhead and transport it across the country by rail, but in essence Midland-Superior is running right from Edmonton to Montreal, or Toronto at the present time, so you are in fact hauling long haul freight by truck. I do not think you are adhering to the principle indicated during the 1959 hearing, because you are now in essence in long haul truck service instead of just servicing the railhead with short hauls.

Mr. GORDON: Yes, but only in a very modest way.

Mr. McDONALD (*Hamilton South*): If you are involved only to a modest extent, why did you enter the long haul truck field at all? P.C.V. licences in Alberta and Ontario being what they are, I think it would be very easy for the Canadian National Railways to buy some small haul trucking companies to truck goods from Niagara Falls into Hamilton, or vice versa, or from some of the local points in northern Alberta, but what disturbs me is the fact that the first trucking firm the C.N.R. bought was almost the longest haul truck firm in the country and I am at a loss to understand why this was done. If one examines the purchases made by the C.N.R. in this regard it will be evident that almost in every situation it was a long haul carrier that was purchased.

Mr. GORDON: I have never suggested that we are not prepared to service our clients with long haul trucking if that particular type of transportation suits their needs. We will provide that service if we can get the business.

Mr. McDONALD (*Hamilton South*): In other words, you intend to enter the long haul trucking field if you can compete in a better way than by long haul railroading or long haul transportation by rail?

Mr. GORDON: Yes, but our basic interest is in rail hauling on the railroad because that is where we have got our capital invested. We have over \$3 billion invested in the railroad.

Mr. LEWIS: Mr. Chairman, before we adjourn this afternoon I should like to say that the implications in Mr. McDonald's questions are not necessarily shared by all members of this committee. In other words, I for one do not necessarily share the implication of his question namely, that there is something wrong with a government owned railway acquiring, within policies which have been laid down, trucking operations across Canada whether they be long or short haul. I do not wish to enter into a long dissertation on this subject, but I should like to point out that while one railway system is by

law required to appear before a committee of parliament and give an account of its operations, the other railway system is not, yet the other railway system, as is public knowledge, has also acquired large trucking interests, and among those interests, a very long haul trucking operation. If the government owned railway is to play any part in the national transportation system and is to play that part efficiently and well it must have at least the same avenues of development as the other railway system in Canada without being subjected to the kind of criticism which seems to be to be implied in the questions that have been asked.

Mr. McDONALD (*Hamilton South*): I can assure you that it was criticism in this instance, and I do not dissociate myself from that fact.

Mr. LEWIS: I wanted to make sure that there was not just one side of this argument on the record.

The CHAIRMAN: Gentlemen, we will now adjourn until to-morrow morning at 10 o'clock, at which time we will reconvene in this room.

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Canada Parliament House, Sessional Committee
on Railway, Air Lines and Shipping

HOUSE OF COMMONS

First Session—Twenty-fifth Parliament
1962

SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES
AND SHIPPING**

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, NOVEMBER 22, 1962

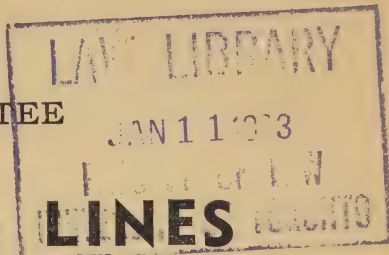
FRIDAY, NOVEMBER 23, 1962

Canadian National Railways Annual Report (1961)
Canadian National Railways Capital and Operating Budgets (1962)
Canadian National Railways Securities Trust (1961)
Auditors Report to Parliament (1961)

WITNESSES:

The Honourable Léon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance; Mr. J. A. de Lalanne, Auditor.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1962



SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Chairman: Hon. W. Earl Rowe

Vice Chairman: Mr. Heber Smith

and Messrs.

Addison	Fairweather	Pascoe
Badanai	Fisher	Pugh
Benidickson	Foy	Rideout
Bourbonnais	Gregoire ¹	Rinfret
Caouette	Lamoureux	Robinson
Carter	Lewis	Rouleau
Chevrier	McDonald (<i>Hamilton</i>	Smallwood
Coates	<i>South</i>)	Smith (<i>Calgary</i>
English	Ouellet	<i>South</i>)

(Quorum—10)

R. L. BOIVIN,
Clerk of the Committee.

¹ Replaced by Mr. Beaulé on November 22, prior to the eighth meeting.

ORDER OF REFERENCE

THURSDAY, November 22, 1962.

Ordered,—That the name of Mr. Beaulé be substituted for that of Mr. Grégoire on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LEON-J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, November 22, 1962.

(7)

The Sessional Committee on Railways, Air Lines and Shipping met this day at 10.05 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Badanai, Benidickson, Carter, Chevrier, English, Fairweather, Fisher, Foy, Lamoureux, McDonald (*Hamilton South*), Ouellet, Pascoe, Pugh, Rideout, Rinfret, Robinson, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(19).

In attendance: The Honourable Léon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Committee resumed consideration of the Highway Services Section of the Annual Report of the Canadian National Railways, and the witnesses were further examined.

The Committee passed the Highway Services Section and the Passenger Services Section.

At 12.30 o'clock p.m. the Committee adjourned until 3.00 o'clock p.m. this day.

AFTERNOON SITTING

(8)

The Sessional Committee on Railways, Air Lines and Shipping resumed at 3.15 o'clock p.m. The Chairman, The Honourable W. Earl Rowe, presided.

Members present: Messrs. Addison, Badanai, Beaulé, Benidickson, Carter, Chevrier, English, Fairweather, Fisher, Foy, Lamoureux, McDonald (*Hamilton South*), Ouellet, Pascoe, Pugh, Rideout, Rinfret, Robinson, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(21).

In attendance: The same witnesses as were called this morning, and Mr. C. A. Harris, Director, Public Relations.

The Committee resumed consideration of the Annual Report (1961) of the Canadian National Railways and further questioned the witnesses.

The Passenger Services Section, the Telecommunications Section and the Hotels Section were considered.

At 5.30 o'clock p.m., the Committee adjourned until 8.00 o'clock p.m., this day.

EVENING SITTING

(9)

The Sessional Committee on Railways, Air Lines and Shipping resumed at 8.10 o'clock p.m. this day. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Addison, Badanai, Beaulé, Benidickson, Carter, Chevrier, English, Fairweather, Fisher, Lamoureux, McDonald (*Hamilton South*), Ouellet, Pascoe, Pugh, Rideout, Rowe, Smith (*Simcoe North*).—(17).

In attendance: The same witnesses as were called at the morning sitting.

The Committee resumed consideration of the Annual Report (1961) of the Canadian National Railways.

The Sections entitled Personnel and Labour Relations and Pensions were passed.

At 10.00 o'clock p.m., the Committee adjourned until Friday, November 23, at 10.00 o'clock a.m.

FRIDAY, November 23, 1962.

(10)

The Sessional Committee on Railways, Air Lines and Shipping met this day at 10.10 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Addison, Badanai, Beaulé, Carter, Chevrier, English, Fairweather, Fisher, Lamoureux, Lewis, Ouellet, Pascoe, Pugh, Rideout, Rowe, Smith (*Calgary South*).—16.

In attendance: The Honourable Léon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President; Mr. R. T. Vaughan, Secretary of the Company; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. J. A. de Lalanne, C. A., Auditor.

The Committee resumed consideration of the Annual Report (1961) of the Canadian National Railways.

The Sections entitled Other Developments and the Outlook were carried.

On motion of Mr. Rideout, seconded by Mr. Lamoureux, the Annual Report (1961) of the Canadian National Railways was passed.

The Committee then considered the Canadian National Railways Capital and Operating Budgets (1962), which were passed on motion of Mr. Badanai, seconded by Mr. Smith (*Calgary South*).

On motion of Mr. Fairweather, seconded by Mr. English, the Committee passed the Annual Report of the Canadian National Railways Securities Trust (1961).

The Auditor's Report to Parliament (1961) on the Canadian National Railways was then considered by the Committee. Mr. J. A. de Lalanne was then called and questioned.

The Auditor's Report was passed on motion from Mr. Pascoe, seconded by Mr. Smith (*Calgary South*).

The Chairman then thanked the witnesses for appearing before the Committee and expressed the Committee's appreciation of the work accomplished by Mr. Gordon in the Canadian National Railways.

At 11.10 o'clock a.m. the Committee adjourned to the call of the Chair.

R. L. Boivin,
Clerk of the Committee.

EVIDENCE

THURSDAY, November 22, 1962.

The CHAIRMAN: Gentlemen I see a quorum.

Yesterday when we adjourned Mr. Smith (*Simcoe North*) asked a question and the president was going to answer it.

Mr. DONALD GORDON (*President, Canadian National Railways*): Yes, Mr. Chairman. I found on consultation with my officers that I had not grasped the point of your question, Mr. Smith.

Plan one, as we discussed and as you know, is a plan for commercial trucking, and that is the rate we quote to commercial truckers. Plan two is a different form of service altogether. Plan one covers the situation where a commercial trucker brings to the railway ramp a trailer and puts his trailer onto the railway ramp, and we commence our services at that point. In other words, he provides the tractor and brings the trailer to the railway ramp.

Under plan two the railway sends its own trailer and tractor to the shipper, picks up the goods and brings them back and puts the trailer onto the flat car, and then at the other end the railway company again provides the tractor and delivers the goods to the consignee.

Now, in connection with our trucking operations, we quote them exactly the same rate as we do to the commercial operator. This is exactly the same rate so there is no advantage in that respect.

While I am referring to this subject I think I should also clear up another point because in discussing it, as some of my officials informed me, I was not very clear. This was in regard to the point raised by Mr. McDonald, who seemed to be worrying about the suggestion that there is a concealed subsidy in respect of our trucking operations as they affect and will affect our master agencies. I want to clear that up.

The fact is that when the master agency principle becomes organized, as I told you, in most cases the distribution will take place through contracts that we will have made with individual truckers so that the individual trucker will be paid for his services in delivering the shipment to the master agency point. If we use our own trucking subsidiaries, this will be done on the basis of a competitive bid. In other words, our own trucking services will quote a rate in regard to bringing that traffic into the master agency point, and if their rate is better than the private trucker can offer, then they will get the business, but it will be an arm's length affair. This will be done on a contract basis and commercial principles in that respect, so that the expense of the trucking will clearly show on our trucking subsidiary account, and there will be no subsidy in the sense that they will get preferred treatment in regard to it.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I should like to ask a question in respect of the piggyback operation. There is no limitation now on any private trucking operator who wants to use the piggyback service?

Mr. GORDON: Absolutely none.

Mr. SMITH (*Simcoe North*): You say there is no such limitation anywhere in Canada?

Mr. GORDON: We will work for any commercial trucker on the basis of that service and rate quoted.

Mr. SMITH (*Simcoe North*): Does that mean in respect of plan one?

Mr. GORDON: We will do that anywhere in Canada, yes.

Mr. R. T. VAUGHAN (*Secretary, Canadian National Railways*): I think there is a little misunderstanding about that, as Mr. McDonald will appreciate. What Mr. Gordon means is that any trucker who comes and offers his trailer to us then we will carry it at a rate, but it might not necessary be under the plan one rate. As you know, plan one is in existence in many parts of the country, but in order to put this plan into operation you need ramps, flat cars and so on. You understand that situation?

Mr. SMITH (*Simcoe North*): Yes.

Mr. VAUGHAN: In addition to that, the railway must conform to the provincial licences or franchises which the truckers have. In other words, we cannot carry a trailer under plan one between two points where the trucker does not have a franchise to operate.

Mr. GORDON: In other words, this applies to those areas where we have service.

Mr. SMITH (*Simcoe North*): I am not referring to that type of limitation, I am referring to those places where you have loading facilities and the truckers do comply with the provincial laws.

Mr. GORDON: Yes, it is the same for both types.

Mr. McDONALD (*Hamilton South*): Mr. Gordon, you indicated that you would have competitive figures for hauling less than carload lots to railheads, either with your own trucks or commercial trucks whereas in respect of Edmonton I was referring to those areas where you had co-ordinated your services together and used the rail sheds and rail equipment which, in comparison with a private truckers business, represent overhead, because the private trucker would have to build those facilities himself. I think there this is a built-in subsidy because you are actually using your rail facilities to facilitate the trucking part of your operation. That is the area in which I felt there was a built-in subsidy.

Mr. GORDON: That has no bearing on the situation at all as far as I can see, because even under present day circumstances we employ, as I said yesterday, over a thousand truckers trucking goods into our sheds.

Mr. RIDEOUT: You do have ramps at your terminals and you had to build them?

Mr. GORDON: Wherever we are handling piggyback loads we have to build ramps, yes.

Mr. McDONALD (*Hamilton South*): I should like to ask a question in regard to the piggyback operation; some time ago the president indicated that the C.N.R. would haul piggyback down to the maritimes.

Mr. GORDON: Yes.

Mr. McDONALD (*Hamilton South*): I think that was in answer to a question asked by Mr. Smith, which precipitated this discussion. My understanding is that the C.N.R. will haul anywhere whether it involves a matter of using a subsidiary trucking company or a private company?

Mr. GORDON: We will do so wherever we have facilities to handle this service, yes.

There was a time when we took an opposite view, particularly in the earlier stages of the development of this piggyback service. I think I expressed an opinion at that time that we would not make this service available to our competitors. However, after more mature thought and study of the situation we realized how this service was growing and we changed our policy. I am the first man in the world to change my mind if I come to the conclusion that I am wrong in respect of a decision I have made.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I have one other question I should like to ask. Mr. Gordon you have a supreme court case in Quebec. I do not wish to tamper with that hearing, but if you should fail in your case there would you then come to parliament and ask for an amendment to the Canadian National Railways Act, allowing you to enter the trucking business?

Mr. GORDON: My reply to that question is that we meet each new situation with spontaneous ingenuity.

Mr. McDONALD (*Hamilton South*): We will look for your solution to this situation with great expectation.

Mr. GORDON: We will deal with these problems as they arise.

Mr. FISHER: Mr. Chairman, Mr. Gaffney, at the 35th annual convention of the truckers association said these words of the railway ever getting a monopoly:

Added to this is the fact that the Provincial regulatory boards make a strong point of ensuring competition on each highway route, and it is certainly unlikely that they will change their established approach to highway services. It is therefore quite safe to say that the railways would never be permitted, nor do they want, a monopoly.

This view seems to indicate that if the railway wanted to move toward a monopoly it could not because of the provincial regulatory boards. I wonder whether you would care to comment in that regard in view of the experience of the Canadian National Railways with the provincial regulatory boards?

Mr. GORDON: I do not think I have any particular comment to add to what Mr. Gaffney said. Of course, we operate in the environment in which we find ourselves, and the provincial regulatory boards have their policies in respect of trucking licences which they grant and we have to conform to whatever decision they make.

Mr. FISHER: What changes have taken place in your trucking policy since you first decided to get into the business beyond the extent of the business you had in regard to the Canadian National Transportation Limited?

Mr. GORDON: I cannot think of any changes in policy that took place. There has been a change in emphasis, perhaps, as we realized the great competitive factors.

Mr. FISHER: Was it the original proposal that the lines acquired would be operated as separate entities and retain their own management?

Mr. GORDON: Yes.

Mr. FISHER: How has that evolved?

Mr. GORDON: We are still very much in a transitional period and by and large the managements of the companies we have taken over remain about the same. Of course we have made changes. We do intend, at the present anyway, to continue operating them as separate entities, but we will undoubtedly have views in regard to the management as we go along.

Mr. FISHER: If they are being incorporated as separate entities, then you will have no objection to giving us the information.

Mr. GORDON: I will have objection. I will give you the over-all figures we gave yesterday, but not the individual breakdown.

Mr. FISHER: Where does this leave us? You say you operate in separate entities and yet you do not want to give us the lump sum figure in so far as profit is concerned. This is surely an inconsistency.

Mr. GORDON: I do not see any inconsistency, any more than if you asked me to break down each section of our freight traffic under each particular heading.

Mr. FISHER: This is different; these are different corporate entities. You have purchased a member of truck lines; you come here and say that with a business of roughly \$20 million you have so much profit. How can we determine how far your integration has gone unless we know how these separate entities are doing?

Mr. GORDON: There comes a time when I have to make the reply that some of these things you just have to leave to management and it is the responsibility of management to determine how best to operate the C.N.R.

Mr. FISHER: I have had a great many conversations with trucking representatives in Quebec and Ontario, with associations, and with the national association. I want to express a general concern in relation to this. It has nothing to do with the point that Mr. McDonald brought up. He was generally concerned about the trend of the C.N.R. going towards a monopoly and interfering with private enterprise. What I am concerned about is what I encountered amongst the trucking people, that the C.N.R. "washed", if I could put it in colloquial terms, in the purchase it made of some of these truck lines. I am referring specifically and mainly to East-West and Empire in terms of a very bad deal. I am referring to Midland Superior, not so much in that it was a bad deal but that an arrangement was made to go ahead with it, and almost two years later you are still not in a position to really know where you stand with Midland Superior. It seems to me that the only way I can have any understanding of whether you made a good buy or a sure buy or a bad buy with East-West and Empire is if we have a look at the changes which have taken place with those two lines and what the profit and loss picture is.

Mr. GORDON: I think I should point out once again that the disclosure of the individual operations of these companies would be of great interest to our competitors and would put us at a distinct disadvantage in that regard. I made very careful inquiries on this point and I find that there is no trucking company in Canada that makes public its operating results. This is true in the case of the C.P.R., the Canadian Steamship Lines who own and operate the Kingsway Transport, the British Electric Traction who operate Canadian Motors Limited, just to mention a few. It is also of interest to call your attention to the fact that in the hearings before the Quebec transportation court to which you referred the chairman of the board, Colonel Harold ruled that the financial results would not be disclosed unless all other truckers in the province of Quebec were willing to disclose the same material. Needless to say they very quickly decided that they are not willing to make such a disclosure, and that is where the matter stands.

As to whether or not we made a good deal, again I say you have got to have some confidence in management. I told you last year that we were in difficulties with East-West, and there is a lawsuit which has developed in that connection. Naturally, those who are hoping to win the lawsuit will spread all sorts of rumours and gossip about our particular position in it, but basically the lawsuit is on the fact that we have withheld a substantial portion of the purchase price because we believe there was not a proper disclosure to us of the asset we were buying. That is what the lawsuit is all about. Certainly there can be gossip about that sort of thing, and as to whether or not we made good buys with this or that company only time will tell. If we can get cleared away some of these frustrations, we have been exposed to by reason of the fact that our competitors have done their damndest—if that is a parliamentary word—to stop us one way or another, then we can get rid of that and get on with the business and operate the companies as they should be operated. I have confidence that the results will show we did make a good deal.

Mr. FISHER: How can we know when you will not give us any indication? All you do is give us a very small profit margin that you have made out of these companies.

Mr. GORDON: It is very much in the early stages of a venture which is relatively new in the railway business and is also subject to the hold-ups that I mentioned.

Mr. FISHER: You are always in a state of transition. I want to come back to this point, Mr. Chairman, that when the C.N.R. went into this it was said specifically that these companies which were purchased were going to be operated as separate entities. Now it appears they are not being operated as separate entities.

Mr. GORDON: They are operated as separate entities in the sense that they are operated as a group, and a disclosure of any one particular item will not do anything but mislead you in respect of the total group. In other words, when we bought these four or five companies, whatever it is, we obviously used them to the best advantage. It may well be that by putting certain types of traffic into Midland Superior—just take that as an example—we will improve the Midland Superior results at the expense of one of the others. That does not matter as long as it is all in the same pot. That is why I do not want to get into figures involving each individual operation. When I say "separate entities", I mean by that that on the group total we will show the results, and the bookkeeping will be kept in such a way that the trucking company entity will be an arm's length affair in terms of quoting rates, of providing services for the railway itself. That is good management. That is all I can say about it.

Mr. FISHER: It may be good management, but we have no way of knowing if you are not going to give us any information regarding these companies. We have no way of judging either the wisdom or the business acuity of the C.N.R. in the lines they bought.

Mr. GORDON: I simply say that the plain fact is that the operations of these companies have been so integrated one with the other and with the railway and its operations, that it is difficult if not impossible to assign definite revenues and expenses to each.

Mr. FISHER: They are not separate entities?

Mr. GORDON: Corporate entities, which is what I mean by separate entities.

Mr. RIDEOUT: Mr. Chairman, what is behind all this?

The CHAIRMAN: I am puzzled as a chairman and I think the committee is puzzled also. We are here to examine the reports.

Mr. FISHER: We are now on highways service.

The CHAIRMAN: I have the floor now; you have it most of the time. We are here to review the details as presented to us in this report. We are not here to censure the general management of this company. We are not here either to learn how to run a railroad. We are here to examine the reports given to us. There is a lot of stuff here that is not even mentioned, the generalities of the firm. I think the president has given a very full answer as to why it is not wise—I do not know whether we should send for the C.P.R. and get their full particulars.

Mr. FISHER: I object to your introducing this. Let me put it this way. I am a representative—

The CHAIRMAN: So am I.

Mr. FISHER: —as are all other members here. I had more representations with regard to this trucking matter last year than with regard to anything else. I want to have something that I can take back to my people, including

people of my own constituency, with regard to this. There are two main problems in relation to this, as I see it: one is what Mr. McDonald brought up, namely, that the general trend of the C.N.R. is leading to monopoly in regard to trucking. I am not particularly concerned with that.

Mr. SMITH (*Simcoe North*): Oh, oh!

Mr. FISHER: But there is another aspect which is a very different problem. I am concerned when I encounter antagonism and doubts that have been raised by the C.N.R. entry into trucking.

Mr. GORDON: Why the C.N.R. and not the C.P.R.?

Mr. FISHER: Because you happen to be a publicly-owned railway. I hear all the time of the fact that you were subsidized by the taxpayers.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I have a supplementary question: even if we have Mr. Gordon provide the information which Mr. Fisher is very anxious to have produced concerning the individual details of operations of these companies, would we at this particular stage be able to decide whether or not the management of Canadian National Railways had made a wise management decision or otherwise in acquiring these trucking companies?

Mr. GORDON: No, of course you would not.

Mr. CHEVRIER: On this whole subject, I do not think it would be possible to determine whether or not a good deal has been made; but there is something which goes far beyond that; it is whether or not there is a rule in this committee that the Canadian National Railways should divulge information which the president says is not in the public interest, or not in the interest of competition. I do not think it should be based on what another body has determined. I think we might consider what has been done by another body, but in my short experience it has been the rule of this committee that if the president of the railway says that it would be detrimental to the interests of the railway not to divulge the information, then I, personally, do not care what the other members are going to do. I personally—because of the position I have had to take on account of the rulings in this committee—will certainly abide by that decision. It seems to me that we have to come to a conclusion on this matter once and for all.

It comes up at every annual meeting namely, that the president is not giving information which members are entitled to. That might be so, I do not know. But even if it is so, if the president says it is not in the general interest, and that it would be harmful to the Canadian National Railways, because of a ruling made in this committee over past years, I am certainly going to support that ruling and support the president of the railway in that respect. The other members may do as they like and overrule it.

The CHAIRMAN: I think we should have a ruling on it. You have heard from Mr. Chevrier who has had experience as Minister of Transport. It does seem to me that we ought to find out where we can go. You can keep on and on saying that it should be divulged.

Mr. FISHER: But I have not made a motion.

The CHAIRMAN: I think we should have a decision by the committee as a whole. We are here as representatives. I am your Chairman, but I have not talked any more than a chairman should. However I too am responsible to my constituents, and if you are looking at it from the point of view of responsibility to your constituents, then I have plenty of things I could have asked. We are here and we are responsible to the whole country, notwithstanding the publicity we may seek to get in our respective ridings.

Mr. FISHER: May I ask what that has got to do with it?

The CHAIRMAN: It has quite a bit to do with it.

Mr. FISHER: Well I resent that.

The CHAIRMAN: I do not care if you resent it or not. I think we should have a ruling in order to know whether or not this general principle is to be accepted; otherwise we might keep on all winter.

Mr. ROBINSON: Your terms of reference cover it right now, Mr. Chairman.

Mr. McDONALD (*Hamilton South*): I would not want in any way to hamper this committee in the future by having certain questions ruled out of order simply because a committee in a given year made a blanket statement that we should not investigate certain matters. I think the Chairman should have control of the committee and rule that certain things are out of order and protect, probably, the president of the railway. But I would not want to make a blanket motion or decision that every time we ask a question the president of the railway can say that we must not ask that question. Of course I am not saying that he would do it.

Mr. GORDON: No, and he never has.

The CHAIRMAN: It is not rigid, but it has been the practice of committees down through the years, and I think we should have some respect for those traditional customs.

Mr. CHEVRIER: Nothing I said has anything to do with a blanket ruling. Since I have been here—I missed the meetings yesterday—for a day and a half, this is the first time that anyone has made a positive statement that this information is going to be harmful to the railway. Having said that, I think the rule should be applied. This would not prevent any member from asking all the questions he wants to ask in connection with a matter under discussion; but if the president says that he has not got the information, or cannot give it under the circumstances because it would be harmful to the railway, then I think his word should be accepted.

Mr. FISHER: I have not introduced any motion that the president be required to give the information, but I want to go on; I would like to ask Mr. Gordon if there was any profit from Midland Superior included in his 1960 and 1961 picture in trucking?

Mr. GORDON: I have given a statement on page 12 of the report where I have presented the over-all results of our trucking operations, and that is as far as I think I can go in respect of this question.

Mr. FISHER: Do you wholly own Midland Superior at the present time?

Mr. GORDON: Well, again that is a technical question. We own 49 per cent of the stock of Midland Superior, and 51 per cent of the stock is held in trust; and it is in that position until we have reached finality with our situation in Quebec.

Mr. FISHER: Can you take the profits from Midland Superior, in view of the particular financial position of the company—I mean the stock position of the company—and add those profits to the profit situation in your trucking as a whole?

Mr. GORDON: We have full control of any dividend payments from the profits of Midland Superior by reason of the arrangement I mentioned.

Mr. FISHER: You say you have full control over the profits?

Mr. GORDON: Yes.

Mr. FISHER: Then may I assume first of all that the profits of Midland Superior are contained in these profits which you have divulged in your own trucking business in 1961?

Mr. GORDON: That is your assumption.

Mr. FISHER: May I ask you if that is right?

Mr. GORDON: I am not going any further than what I have said here. I realize that in the line of questioning you may keep asking question after question on each item I have divulged, and that this could be added up to find something which might be quite misleading. Since the matter is complex, I do not trust myself to follow the subtleties of your questioning, and I rest my case on the statement made in the annual report we are now discussing, that is in paragraph 2 on page 12, as constituting a full disclosure of our trucking operations. We have said right in here—

Mr. FISHER: I cannot understand how you can take the position.

Mr. GORDON:

For the full year 1961 the net operating profits of all trucking companies wholly or partially owned at the year end was \$131,170, after provision for depreciation and for interest on advances made by CNTL to those companies for working capital and purchases of property and equipment.

This is a full statement of our position and it is just as clear as we can make it.

Mr. FISHER: May I ask when the railway expects to have control of Midland Superior?

Mr. GORDON: We will start in on that question when we finally get a ruling or decision arising of the matters before the Quebec transport board. We had a decision from the board but it has been appended against with an appeal, so I could not give you an exact date, until we get that matter cleared up.

Mr. FISHER: Is it not possible that you may not gain control of Midland Superior?

Mr. GORDON: We are quite sanguine that our application before the Quebec transport board will come to a satisfactory conclusion; however I cannot say definitely when it may be received.

Mr. SMITH (*Simcoe North*): The shares of Midland Superior are held in trust, and I understand there is an agreement outstanding with the Canadian National Railways to purchase those shares.

Mr. GORDON: Yes, once the matter has been fully straightened out before that board.

Mr. SMITH (*Simcoe North*): At a previous committee meeting you said, did you not, that when the purchase of the various trucking companies was completed, you proposed to issue a consolidated trucking statement?

Mr. GORDON: Yes.

Mr. FISHER: When do you expect that?

Mr. GORDON: Again it depends on the timing of these court cases.

Mr. FISHER: I have an answer to a question last year, 265, sessional paper 148B. The first question was:

Of the Canadian National Railways' deficit for the last fiscal year, how much of the deficit is attributable to operations of those trucking companies purchased within the last two years by the C.N.R.?

The answer to the first question was:

When all trucking operations for 1960 are included there was no deficit in their operations for the year. However, since the purchase arrangements for all the companies were not completed as at December 31, 1960, there is a credit of about \$400,000 not yet taken into C.N.R. accounts for that year.

Would you explain this matter of the credit of \$400,000.

The CHAIRMAN: What year are you talking about?

Mr. FISHER: 1960.

Mr. VAUGHAN: That answer as given was in conformity with the situation.

Mr. RIDEOUT: The debate seems to be, transport trucking versus the railroad.

Mr. FISHER: I am asking questions about the operation of the trucking. There is no debate here. I just want an explanation of the answer I got in 1961.

Mr. GORDON: There is no explanation for the answer. The answer is there.

Mr. PUGH: Was it outstanding at the end of 1960?

Mr. GORDON: The figures I have quoted in here, as I said before, deal with the year 1961. The net profits for all trucking companies wholly or partially owned are brought into this statement.

Mr. PUGH: I have one question which I think is pertinent. Is your complete trucking operation under one head?

Mr. GORDON: Yes.

Mr. PUGH: This is all your trucking operations under one head?

Mr. GORDON: Yes. It is under the head of Mr. Frank Gaffney, vice president of highway services. I think we said in our report that all road services of the Canadian National's operation were expanded during 1961 and further steps were taken to co-ordinate trucking activities. All road services, including the long-established branch of road transport and the pick-up and delivery operations of express and less than carload freight services were brought together under the department of highways' services. This department, which was established in January, 1961, also directs and controls the subsidiary trucking companies acquired by Canadian National Transportation Limited.

Mr. FISHER: I would like to ask Mr. Gordon some questions relating to the money that he has for purchasing trucking companies. As I understand it, you still have some money left over from what was assigned.

Mr. GORDON: That is also stated in the report.

Mr. FISHER: What is the condition of that money in terms of interest?

Mr. GORDON: The report says that the total capital investment in trucking companies was \$11.9 million at the end of 1961 and an additional \$3.7 million was on deposit to meet commitments associated with negotiations for the purchase of additional companies.

Mr. FISHER: Does that money have anything to do with Midland Superior—that \$3.7 million.

Mr. GORDON: I am going no further than what is stated in the report. I think it is time that I take a position on this. I have stated that our explanation is contained in those two paragraphs, and I have nothing further to state in respect of that.

Mr. FISHER: Let me come at it in another way. Is there any charge to the Canadian National Railways' accounts for that money that is in that account.

Mr. GORDON: Is there any charge?

Mr. FISHER: Is there any charge to you for that money?

Mr. GORDON: The \$3.7 million?

Mr. FISHER: Yes.

Mr. GORDON: I do not know what you mean.

Mr. FISHER: What is that money doing at the present time?

Mr. GORDON: I have stated in the report that the \$3.7 million was on deposit to meet commitments. If you mean is the money on deposit and earning interest; yes.

Mr. FISHER: Is that interest part of the money that is available for your profit figure in relation to the trucking?

Mr. GORDON: I do not know. It is such a small thing. It is not included. The answer is no.

Mr. FISHER: What has been the situation in respect of the trucking companies you have taken over, such as East-West and Kingsway?

Mr. SMITH (*Simcoe North*): Not Kingsway.

Mr. FISHER: Are the employees of those companies now employees of the Canadian National Railways?

Mr. GORDON: Well, again, I would have to examine that. This covers questions that have to do with the status of employees including pension and things of that kind. I am not sure whether they are fully integrated in that sense; but they are employees of the C.N.R. in the sense that they come under the direction of Mr. Frank Gaffney.

The CHAIRMAN: We have another item on personnel and labour relations coming up.

Mr. FISHER: Is it contemplated that all the employees of these various companies will be brought in under the pension arrangements and other things?

Mr. GORDON: That is a question that will have to be worked out. We are not yet far enough ahead with the definite integration of those trucking services into our operation. Until these things are settled I am not going to be driven into giving answers in connection with the affairs of a company which is in the stage of uncertainty and transition. You see, everything is in transition. We have a very difficult situation with regard to trucking until we are able to clear the ground and get it on the businesslike basis which is necessary. Each one of your questions really has the meaning, am I committing myself to a certain line of conduct, and I am not going to commit myself to anything until I can deal with it specifically.

Mr. SMITH (*Simcoe North*): Would it not be fair to say that the unions and employees themselves will have some bearing on whether or not the employees of the trucking companies come under the C.N.R.

Mr. GORDON: Of course. There are union agreements and all sorts of different things such as welfare benefits and matters of that kind affecting employees, and they will be dealt with by management in the most considerate way possible. They are all employees in the sense that we have authority to instruct them in respect of their daily duties; but as to their status, I do not want to commit myself definitely. I think there are four, five or six different unions, incidentally, which are involved in this.

Mr. McDONALD (*Hamilton South*): In my short studies of rail trucking I have met with people and certain rumours have come to my attention. I would want you, I hope, to deny this question which I will ask . . .

Mr. GORDON: Before we start on that, and in order that I do not get into any more difficulty, I submit to this committee through you, Mr. Chairman, that it is not fair to me to be always put in the position of denying or confirming rumours and gossip. Some of this rumour and gossip has been brought out for the specific purpose of embarrassing us and making our operations more difficult. If I am going to be put in the position of saying whether such and such is true or false, surely I can say that that is not a fair position to put any management in which is operating the Canadian National Railways. I make that statement before you tell me the rumours. I do not want to know what the rumours are. I could give you 100 rumours. If I am going to be put in the position of saying true and false, then I would be giving information to my competitors.

Mr. McDONALD (*Hamilton South*): This has nothing to do with shares of stock or who owns the trucks or anything like that. I will ask the question. If you do not want to answer it, it is all right. It has come to my attention that the head of the trucking operations, Mr. Gaffney, made certain arrangements with the teamsters union in Quebec whereby he said he would make a quick settlement of the labour negotiations if the teamsters withdrew their financial support in the action against the C.N.R. in the supreme court of Quebec.

Mr. GORDON: I am strongly tempted to answer this, but I will stay with what I said.

Mr. CARTER: Who initiated this lawsuit? Did the railway initiate it?

Mr. GORDON: No, this came into being by reason of our application for licensing.

Mr. CARTER: But you said it was a test case.

Mr. GORDON: That is another matter.

Mr. CARTER: How many lawsuits are there?

Mr. GORDON: The lawsuits we mentioned yesterday are petty lawsuits in terms of certain operations we have had for many years, and it has to do with whether or not we have the right to run our own trucks under specified conditions. We say we have the right to. Issue has been taken on this matter and we are having a test case in that connection.

Mr. VAUGHAN: These are not concerned with the trucking companies; this has to do with C.N.T.L.

Mr. CARTER: Those are your own trucks.

Mr. VAUGHAN: Yes. It has nothing to do with trucking companies.

Mr. CHEVRIER: Mr. Fairweather, who was one of the operating vice presidents of the railway, stated repeatedly there should be greater integration between railway operations and trucking operations and although I do not think he had in mind what is under discussion at this time he did have in mind, I think, integration between branch lines and trucking along developmental lines. Has that principle been pursued, abandoned, or at what stage is it?

Mr. GORDON: That comes pretty well within what I was attempting to outline yesterday in regard to the master agency principle. Of course, integration of trucking with the railway is applicable only in connection with L.C.L. freight. Obviously it is not a factor in carload freight, which is our major business. What I was endeavouring to say was that if we could merge these two types of traffic together and effect an efficient and economical operation by using the facilities of trucking to get the traffic to the main railway points, then we will get an integration of the advantages of long haul railway and the distribution by truck. But even that will make us competitive. At the moment we are not competitive; we are losing business by reason of the fact we are not giving as good a service in some cases as the individual truckers.

Mr. RIDEOUT: We are happy in the maritimes to use the piggyback service when the snow is ten feet deep.

Mr. FISHER: In relation to the truck companies which are listed in the C.N.R. structure, is Mr. H. J. Francis still general manager of Sydney Transfer and Storage Limited?

Mr. GORDON: Do you know of your own knowledge Mr. Vaughan?

Mr. VAUGHAN: Of my own knowledge, he is not.

Mr. FISHER: Is Mr. Chisholm still general manager of Eastern Transport Limited?

Mr. VAUGHAN: I have no knowledge whatever on that.

Mr. FISHER: Is Mr. Thiessen still manager and president of East-West Transport?

Mr. VAUGHAN: Of my own knowldge I do not think he is.

Mr. FISHER: Is Mr. Fraser still president and general manager of Empire Freightways Limited?

Mr. VAUGHAN: There must be an end to this somewhere.

Mr. GORDON: No, there isn't.

Mr. FISHER: I just wanted to ask in respect of those companies—

Mr. GORDON: If you want us to give an answer to your question and set forth the names of all the general managers of these companies we will check into it and get an answer for you.

Mr. FISHER: What I was trying to establish was this. As I understood it, the C.N.R. bought these companies as going concerns with the intention of carrying on with the management and personnel, and I wanted to establish that in a relatively short period of two and a half or three years most of the management personnel has disappeared.

Mr. GORDON: That is not right.

This is the sort of thing, Mr. Chairman, which you know is not fair.

Mr. FISHER: Well, how can I find out unless I ask.

Mr. GORDON: But you frame your questions on the basis of being hostile to C.N.R. interests throughout. There is an implication in your questions that you have some bias toward C.N.R. management, and you place it in the worst possible light you can think of.

I have told you again and again we bought these companies, and when we bought them we have control over them. We will apply any management which, in our judgment, will best serve the interests of the C.N.R., and if it happens the management that was there before we bought these companies is satisfactory we will retain them; but if it is not in the best interests of the railway and, as a result, we are losing business through incapability, we will let them go. It is as simple as that, and I cannot see the necessity for all these questions.

Mr. FISHER: The president has made a statement that my questions show a hostility and bias, and as he has made that general observation I want to have the right to make a general observation as well. From my reading of the evidence the C.N.R. indicated when it entered the trucking business it was going to keep these organizations under separate management, and it has not followed this particular line at all—and that is all I was seeking to establish by these questions.

The CHAIRMAN: Mr. Gordon has answered your question. I do not know how you can give any guarantee of continuing management when one company buys another out.

Mr. FISHER: I appreciate your point, but I want to get on the record that I feel these questions are relevant to my way of thinking in light of the representations that have been made by the trucking interests, who were worried about the C.N.R. entering the trucking business, and one of the things they have pointed out to me is that the C.N.R. has changed its tune since it started. That is all I wanted to put on the record, Mr. Chairman—and I do not think that is hostility.

The CHAIRMAN: I presume it is on the record.

Mr. FISHER: I have one more question. Are you in a position to tell us at the present time whether negotiations are underway with any other trucking companies with intent to purchase?

Mr. GORDON: That is not a question which I think I should answer.

Mr. SMITH (*Simcoe North*): Mr. Gordon, I suppose some of these management people who have left the companies were part owners of the companies which were sold to the C.N.R.?

Mr. GORDON: Yes, that is correct.

Mr. SMITH (*Simcoe North*): And I suppose it would not be an unfair assumption that having sold their companies they would be no longer interested in working for the C.N.R.

Mr. GORDON: Well, it depended on the deal. Every deal that was made took full account of the particular circumstances of management and the ownership of the company, and there were individual deals made in each case. But in no case were we under any pressure to retain anybody if they were not capable.

Mr. SMITH (*Simcoe North*): I presume some left voluntarily even after?

Mr. GORDON: Yes.

Mr. PUGH: I would like to clear up this matter of the lawsuit. Is the lawsuit we have been referring to the one with Midland Superior?

Mr. GORDON: Perhaps I have used the word rather loosely.

The Transportation board case arises out of the fact we made application for the transfer of the licence the shares and licence rights having to do with the Midland Superior. The licence already covered authority with respect to inter province shipments. You understand that intra-provincial franchise is the right to pick up loads in the province of Quebec and deliver to another point in the province of Quebec, and that is subject also to a licence permit issued by the Quebec Transportation Board. As I indicated earlier the share and licence transfer application is now under appeal. That is the licence transfer situation. There are lawsuits which have developed out of the fact that for years back Canadian National Transportation Limited trucks had, in the judgment of our legal department, full power to pick up and deliver packages whether they be express or L.C.L. in and about the city of Montreal, for example. We might have picked up traffic off our trains in Montreal and delivered it forty miles away by trucks. But these are our own trucks. However, a dispute has arisen in regard to that and the license authority or someone feels we do not possess that power. We have commenced a test case in that regard and have been brought before the magistrate's court for illegally operating these trucks.

Our answer to this charge is that we are not illegally operating, that we have full authority to do so, but this case is pending.

Mr. PUGH: Are you entitled to operate your trucks pending adjudication of this case?

Mr. GORDON: Yes.

Mr. PUGH: Are you still entitled to operate Midland Superior trucks as well?

Mr. GORDON: No, Midland Superior has nothing to do with this, nothing at all.

Mr. PUGH: Did Midland Superior have the intra right of picking up at different points within Quebec prior to the purchase of Midland Superior?

Mr. GORDON: We thought they had, yes.

Mr. VAUGHAN: They had inter rights.

Mr. PUGH: Was the bargain contingent upon the possession of this right?

Mr. GORDON: To this extent; we knew there was doubt about this and part of our deal took cognizance of the fact that that doubt might bring us into difficulty with the Quebec transportation board.

Mr. PUGH: As a result of this doubt, did you pay less for the purchase of this company?

Mr. GORDON: That will depend whether the judgment of the transport board is upheld.

Mr. PUGH: While all this is going on and pending the final determination of this, have you sufficient trucking in the province of Quebec to continue operating?

Mr. GORDON: I would say so, yes, in the respect that if we have insufficient equipment of our own we can hire them.

Mr. PUGH: You are hiring them, are you not?

Mr. GORDON: Yes.

Mr. RIDEOUT: Let us get back on the railway and off the highway.

The CHAIRMAN: Perhaps we should get back on the tracks.

Mr. FISHER: Mr. Chairman, I have some questions I should like to ask the president. Since the president has been kind enough to tell us about the situation in regard to Midland Superior, I wonder whether he would tell us if there is an action pending in relation to Husband Transport Company?

Mr. GORDON: There is no action pending. A decision has been made in that regard.

Mr. SMITH (*Simcoe North*): There was an action in the courts in respect of Husband transportation, was there not?

Mr. GORDON: There was a decision rendered by the board, but that is going to appeal, and is in fact now under appeal.

Mr. FISHER: You were successful in the first instance, but now it has been appealed?

Mr. GORDON: It has been appealed by the trucking interests.

Mr. FISHER: I wonder whether you could also tell us the situation which exists at the present time in a legal sense with regard to East-West Transportation Limited?

Mr. GORDON: That case is pending in the courts.

Mr. FISHER: In which court is that case pending?

Mr. GORDON: I do not know which court is involved. I presume it is in whatever is the appropriate court in Manitoba.

Mr. FISHER: Did you initiate that action?

Mr. GORDON: I understand there is an action and a counter action involved.

Mr. FISHER: Is there any action involved in relation to Empire Freightways?

Mr. GORDON: I do not recall that there is such an action but it is possible that that company might be intermingled with another case. However, I do not think that is the situation.

Mr. FISHER: I should like now to put a specific case which was brought to my attention by the truckers in the area of the Lakehead to the president, Mr. Chairman. This is a detailed case and for that reason I would waive my right of putting this on the record and ask Mr. Gordon for the assurance that the Canadian National Railways will interpret this situation for me. This has relation to the hauling of beer for the Brewers Warehousing Company from Port Arthur to Atikokan.

Mr. VAUGHAN: Is that the same case, Mr. Fisher, in respect of the agreed charge which you asked about last year?

Mr. FISHER: Agreed charges are involved.

Mr. GORDON: I want to ascertain just exactly what this question relates to. After listening to Mr. Fisher, it seems to me that this is a question being raised on behalf of our competitors and I shall not commit myself to making replies to any questions about certain things our competitors decide they would like to know.

I am of the opinion that members do not seem to realize that these questions raised by trucking competitors represent questions and criticisms, as the case may be, by our competitors and that they are damaging to the interests of the Canadian National Railways enterprise as such. I suggest to you that members of this committee should be interested in helping the Canadian National Railways instead of helping our competitors.

Mr. FISHER: Mr. Gordon, all your competitors as well as the Canadian National Railways people also happen to be our constituents, and when they raise matters relating to the publicly owned railway I think it is only fair that you should be asked to give your side or interpretation of this situation.

Mr. GORDON: I am only stating to you that I will not commit myself to making replies to questions that our competitors are in effect asking.

The CHAIRMAN: Mr. Fisher, I think probably you should put your question to the committee so that we will know whether to accept it or not.

Mr. FISHER: The Brewers Warehousing Company was using the C.N.R. to haul their beer from Port Arthur to Atikokan approximately 132 miles. The rate was 82 cents per hundredweight. After the road was completed, and that is the road beside the railway tracks, Brewers Warehousing Company was required to provide door to door service which was provided by an independent local trucker licensed for this work at the rate of 82 cents per hundredweight.

Three months later the C.N.R. offered to cut the rate to 68 cents per hundredweight. The trucker agreed to haul at this reduced rate, and several months later the C.N.R. again offered to cut the rate to 55 cents per hundredweight. As this was nearly an uneconomical rate the trucker again agreed, providing that the empties were given to him for a back haul, as these had previously been placed in boxcars at Atikokan.

Five months later the trucker was informed that his hauling was to be terminated due to the fact that the C.N.R. had made an agreed charge with the Brewers Warehousing to haul the beer from Toronto to Atikokan at the same rate of 73 cents per hundredweight that they were charging from Toronto to Port Arthur; in other words, free from Port Arthur to Atikokan.

The rest of the case is argumentative but that is a description of the circumstances.

Mr. PUGH: What is your question?

Mr. FISHER: I did not wish to bring this question before the committee, but I should like to ask the president of the C.N.R. whether this is a true summary of the situation, and whether that is an economical rate.

Mr. GORDON: Most certainly I would say that it is a economical rate, and I am certain of that without even looking at the situation.

Mr. FISHER: Yes, but you have put a trucker out of business.

Mr. GORDON: Did you not say that this case originated due to the fact that the C.N.R. was trucking from the brewer's warehouse in the first instance? Is that the way this situation arose?

Mr. FISHER: You were originally hauling the beer by rail.

Mr. GORDON: Is it not perfectly clear then that the trucker was trying to steal our business and we protected ourselves?

Mr. FISHER: You certainly did protect yourselves.

Mr. GORDON: The action we took involved nothing more than competition. We did have the business in the first instance.

Mr. McDONALD (*Hamilton South*): Truckers can appeal competition by agreed charge, but it takes three months to get a ruling. The use of an agreed charge is a very effective weapon in eliminating competition in the trucking industry.

Mr. GORDON: I am very glad to hear you say that because we will now use this method as much as possible. I have stated again and again that our agreed charges are arrived at on a compensatory basis. In the competitive picture through agreed charges we attempt to protect our business against attempted raids by our competitors. This is the business that we happen to be in.

The CHAIRMAN: As a shareholder I would say that you were minding your own business.

Mr. GORDON: Yes.

Mr. CHEVRIER: Mr. Chairman, may I ask a question in respect of this item? This question arises out of the discussion that we had a day or two ago, and I should like further details at this time regarding passenger services first, and more particularly, the second volume of the royal commission on transportation. There was contained therein a recommendation for subsidies in the amount of \$62 millions for the two railways, representing \$20 millions for the Canadian Pacific Railway and \$40 millions for the Canadian National Railways. If this program is projected over a five year period, as recommended in the commission's report, this would mean \$86 millions in subsidies for the elimination of passenger service, \$66 millions to the Canadian Pacific Railway and \$120 millions to the C.N.R. My question is: what consideration has the Canadian National Railways given to the curtailment of its passenger services in Canada, firstly if there is any contemplation of reduction in passenger service on the transcontinental lines, and, secondly, on other main lines. I wonder whether the president would direct his attention to the first question.

Mr. GORDON: I think, first of all, in reference to the subsidies—if I remember the report and I am drawing heavily on my memory—the amounts mentioned are subject to authenticity that these unprofitable passenger services exist. We have got to prove it before the board. Then, we are urged to go ahead with reducing all unprofitable passenger services to the maximum possible extent, saving always the public interest. If we reduce those unprofitable services, then the amount of the subsidy mentioned will also be reduced. The figures mentioned are maximum figures.

Mr. CHEVRIER: That is right, that is indicated in the projection because for the first year it is \$62 million and then it gets very much lower at the end of the year.

Mr. GORDON: In the light of that, we are making a very intensive analysis in regard to all unprofitable passenger operation services for the purpose of reducing them to the maximum possible extent. It is our objective to operate passenger services at an over-all profit. Therefore, our policy is to compete vigorously for passenger service in those areas where the railway facilities and the size of the travel market provides a reasonable expectation that the system can profit by so doing.

In furthering that aim there are five main features which I would like to read from this policy statement.

1. Operate passenger services that, in terms of arrival, departure and elapsed times, types of equipment, standards of comfort, quality of personal service, dependability and price, will be attractive in potentially profitable markets;

2. Promote and sell the use of these services with initiative, imagination and resourcefulness, using the most effective market and traffic research and promotional and selling techniques;
3. Operate passenger services efficiently and at minimum cost consistent with maintaining their attractiveness and safety;
4. Make innovations in services and equipment that will result in an improved net position through increased revenues or decreased costs;
5. Seek to withdraw from those services that, in spite of all reasonable efforts, do not produce sufficient revenues to offset their operating costs and have no reasonable prospect of doing so.

In regard to that last statement, when we seek to withdraw from a service based on what I say we have determined, that they do not produce sufficient revenue to offset their operating costs and have no reasonable prospect of doing so, the board of transport would still have a right to say: we want to look at that. If they direct us, notwithstanding our representations that these are losing agents and there is no prospect of them becoming profitable, to continue them in the public interest, then the loss of those services will continue to be payable to us in the form of a subsidy.

Mr. CHEVRIER: Mr. Gordon, you have taken me off the main line way down on to the side line. I would like to come back and get some information on the point I made. The report has been out now for I think over a year, at least the first volume, and what I would like to get information on—and I am sure the committee would—is where these unprofitable passenger lines are and where the Canadian National Railways intend to move relative to specific areas in Canada where there is unprofitability.

Mr. GORDON: You see, there are two points to that. What I am referring to is unprofitable passenger services; it is not necessarily lines. These would be services running from here to there where we might be giving a daily service and we might decide to reduce it to a tri-weekly service. We would still have a service. We might be giving a service two or three times a day and we might decide to cut down one of those trains or run a different type of operation.

Mr. CHEVRIER: Can you give the committee some indication of where that service would be?

Mr. GORDON: I will tell you my quandary and perhaps I will ask for your advice. I do not want to do that until we see the results of the MacPherson commission legislation. I would like to see where we are going to get to and the type of legislation before we publicize the services we have under contemplation. We have already taken steps in regard to the winter season—you have seen a number of announcements in that respect—but there will be services on which we have to decide whether or not we would make application to the board in the sense of saying: this is an unprofitable service but there may be a couple of interests attached to it; will you see that we get a subsidy. I want to see what the legislation is first.

Mr. CHEVRIER: Can you say, in the light of the studies that you have made thus far and that you are now making, whether there is any consideration being given to the curtailment of services on transcontinental lines?

Mr. GORDON: Yes. We will get into another area now, and again it is premature. We have been having very definite discussions with the C.P.R. to see whether we can work out an understanding with them along the lines that were forecast two or three years ago as to the obligation of the dominant railway. In other words, we are going to try to see if it is possible to work

out that in given areas when one railway is the dominant railway as compared with the other, the obligation for passenger service will be taken over by that railway. We found that to be a very difficult, complex and tricky subject. We have been having very close discussions with them and I am hopeful that very soon we will be able to determine the policy in that respect. Again, I do not think we will reach any agreement with the C.P.R. until we have seen the effect of the MacPherson legislation.

Mr. CHEVRIER: Has that policy been under discussion on other than trans-continental lines, the policy of cooperation with the C.P.R.?

Mr. GORDON: Yes. You are talking of the transcontinental lines in terms of the line from Montreal to Vancouver?

Mr. CHEVRIER: And up to Halifax.

Mr. GORDON: It would include any place where we can see that one railway, by concentrating on the service in that particular area, can give all the necessary service and relieve the other railway of the service altogether.

Mr. CHEVRIER: What you have in mind is the same kind of arrangement that now operates between, say, Montreal and Toronto?

Mr. GORDON: No; you are referring to the pooling arrangement which would be a different thing altogether. We hope, if we can work it out, that there will be areas where only one railway will produce the passenger service in that area in exchange for the other railway taking on the obligation elsewhere. Remember that we prepared this as an obligation rather than a privilege.

Mr. ROBINSON: Mr. Chairman, now that we are off the trucks and on the highways—

Mr. FISHER: We are not off trucking yet, are we?

The CHAIRMAN: Yes, we are. We are now on passenger service.

Mr. FISHER: I still have one question left to ask, a general question. I do not think the committee will mind this.

The CHAIRMAN: There are other members who have questions to ask. I have got to take them in order as I see them, Colonel Robinson, Mr. English, Mr. Carter, and then, Mr. Fisher, you will be next.

Mr. ROBINSON: I would like to ask Mr. Gordon to give us an approximate loss on passenger service for 1960 or 1961.

Mr. GORDON: It runs in the order of about \$40 million. You are now talking of 1960-61?

Mr. ROBINSON: Last year.

Mr. GORDON: That is not a definite figure, call it \$40 million to \$50 million. That is about the order of it.

Mr. ROBINSON: After Mr. Chevrier's remarks, you answered a few queries that were in my mind as regards the future of the passenger service, but I would take it now that there are some lines on the C.N.R. that are paying their way as far as the passenger service is concerned.

Mr. GORDON: Yes.

Mr. ROBINSON: That more or less explains the method you are following in curtailing lines for the future. I am interested because that is one of the pioneer districts as far as the curtailment of railway services is concerned. At present there is a movement on foot up there which would lead us to believe that the Canadian National is gathering more information in order to give us further curtailments.

I wondered whether it was merely a dollar and cents matter, or if the railway was looking to the future. The highways department of Ontario has laid out plans for 20 years ahead. It is not because I happen to come from

a certain district, but there are signs of great industrial improvement up in that district that I come from, and I feel it would be really pathetic if curtailment were to be made there now at such time when the future looks so bright industrially.

Now I go on to my next question, and that is: are some passenger lines at present over-serviced on the Canadian National Railways?

Mr. GORDON: Yes, I would say in part that may be true; that is part of the study we are making. But on your general point, however, as I tried to say, we are making very intensive efforts to try to persuade the public to use our passenger services, and where that can be done in such a way that we get enough passengers to use the services to cover our costs and give us a small profit, we will maintain that passenger service.

When we study any particular area we will have in mind very definitely the potentialities of the future, particularly in regard to what other forms of transportation exist. In your particular area you have a first class road system, and the main competitor with the railway is the automobile. But if by any form of improved passenger service on the railway we could get enough people to use our passenger service, we would have no desire to abandon such service except in the event that we find ourselves in the position that we cannot earn any money.

Mr. ROBINSON: What I had in mind was the number of places now, let us say, between Montreal and Ottawa.

Mr. GORDON: Yes.

Mr. ROBINSON: Are they over-serviced at the present time?

Mr. GORDON: That would be one of the things to be included in our discussions with the Canadian Pacific Railway. I think we could effect an improvement there if we were able to mesh the services.

But with respect to this problem as well as others, when you go into the Union station at Ottawa you may form the opinion that there seems to be a lot of trains. But you must remember that our line between Montreal and Ottawa covers intermediate points, and if we cut out Canadian National trains, it would mean that certain communities would not be serviced. So we must keep in mind where our railway runs; it is not only between Montreal and Ottawa where, I agree, there seem to be too many trains; but we must also keep in mind the fact that the Canadian Pacific cannot service points on our line while we cannot service points on the Canadian Pacific line, so we have to provide adequate service to those intermediate points.

Mr. ROBINSON: Another point I would like to have your comment on is this: close to home at Owen Sound, there are two early trains, one Canadian Pacific and one Canadian National. I understand that the Canadian Pacific train gives a better service to Toronto than does the Canadian National. Is there any way that the board of transport commissioners could look into a situation like that without somebody having to go and ask for an elimination of the duplication?

Mr. GORDON: I do not think that the board of transport commissioners would do that on its own volition. Their job is usually to consider whether or not they will prevent abandonment of service. We ourselves, however, would be interested in removing duplication, if true duplication existed; but again, you would have the problem of intermediate points.

Mr. ROBINSON: May I ask if the Budd car is proving satisfactory in districts when there is a very tough winter?

Mr. GORDON: Yes. Mr. Demcoe, what is your opinion of the operation of the rail liners particularly out west?

Mr. DEMCOE: We have rail liners operating between Edmonton and Calgary; and we have just put in rail liner services out on the Prince Rupert line. We have operated Budd liners in eastern Canada where there is heavy snow, and we have had very little difficulty in the operation of those cars.

Mr. ROBINSON: I was wondering whether you had a sufficient quantity of those Budd cars? There was an accident between Wingham and Kincardine last spring when the snow was on the ground, and a Budd car was derailed. Since then a regular train has been coming in, handled by a train crew; whereas the Budd car probably had a crew of only three.

Mr. DEMCOE: We have very few spares, and when we get into an accident, we have to make use of conventional equipment until the rail car is repaired.

Mr. GORDON: You must keep in mind that we do not have a stock of Budd cars. As you know, they cost about \$250,000 apiece, and if one of them gets damaged, we have to wait until we see what we can do about it, because we could not afford to keep a reserve of them.

Mr. ROBINSON: I was wondering if that Budd car was working somewhere else, and that was why this conventional train was now coming in there. I know that the Budd car gave us as good if not better service.

Mr. DEMCOE: I do not remember the case you mentioned.

Mr. RIDEOUT: Maybe the volume of traffic has increased to the point where they cannot handle it with a Budd car so they had to go back and use a conventional train.

Mr. ROBINSON: I have one more question in which I would ask for Mr. Gordon's personal opinion. Does Mr. Gordon think it is fair that a district like ours should be discontinued on passenger service and yet be called upon to help pay the subsidies over other lines which are being serviced?

Mr. GORDON: The answer to that is that we will provide any service that the people in your community will support and use. If the people in your community will use a better service and put their bodies in the trains instead of driving their private automobiles, we will be only too happy to give that service.

Mr. ROBINSON: Well, even if they do not use it, they will have to continue to help pay for the subsidy. I wonder whether the president considers that Canada should be serviced by one railway instead of two? I am quite serious in this question.

Mr. RIDEOUT: I would say no.

Mr. GORDON: Well, I have never thought, myself, of a merger in terms of the two main railways as being to the advantage of Canada. That is my general view of it. I think the existence of the Canadian National Railways has done a great deal to improve services generally for the shipping public, and that, generally speaking, Canada is getting a far better brand of railway service covering everything than it would have if the field were in the hands of one monopoly.

Mr. ROBINSON: Would it be possible to have a monopoly under the board of transport commissioners, if that board were still officiating?

Mr. GORDON: I thought that you meant that the two main railways would be treated as one railway.

Mr. ROBINSON: That is what I meant.

Mr. GORDON: Yes, there would be a monopoly of the railway business in that event.

Mr. ROBINSON: But they would not have to work under the board of transport commissioners?

Mr. GORDON: The board of transport commissioners could not do anything if there was not an alternative.

The CHAIRMAN: I think Mr. Chevrier and some of the older liberal members will recall the old phrase "competition ever, amalgamation never!"

Mr. CHEVRIER: Yes, and that is why we won the election. Mr. Bennett favoured amalgamation.

Mr. OUELLET: Mr. Chairman, first of all I wish to offer my apology in endeavouring to speak in English instead of my native tongue, but I have received a complaint from my constituency over the fact that the Canadian National Railways want to eliminate two trains, numbers 643 and 644 between Quebec and Richmond. I cannot understand this action very well. Those trains have been running for a long time. I want to know the reason why they want to eliminate them. The population there needs those trains. I will not accept this before the C.N.R. or the board of transport commissioners gives me a report to the effect that those trains are losing money. There are many people living around this railroad.

Mr. GORDON: Are they using the trains?

Mr. DEMCOE: How many people use the trains per day?

Mr. OUELLET: Did you lose money on this?

Mr. GORDON: Yes. The reason that a train is eliminated is that there are not sufficient people using the trains to pay for the cost of the operation. The only trains that we have eliminated are those eliminated for the reason that we are able to show to the board of transport commissioners that we have not got enough out of it to pay the cost.

Mr. OUELLET: They are not eliminated yet.

Mr. SMITH (*Simcoe North*): They are going to be.

Mr. OUELLET: Yes, but they are not yet eliminated. It not only involves one, but two.

Mr. GORDON: The same reason applies.

Mr. OUELLET: I am pretty sure you can make enough probably to continue with one.

Mr. DEMCOE: That is a Budd liner operation.

Mr. GORDON: I can assure you that we would operate the train if there were enough people patronizing it to pay for the cost of the operation. I do not have the figures, but I will be glad to get them.

Mr. DEMCOE: A study is being made of the train at the present time.

Mr. GORDON: A study is going on at the moment.

Mr. SMITH (*Simcoe North*): It is before the board of transport commissioners now.

Mr. OUELLET: Before the decision is made I would like to be advised.

Mr. SMITH (*Simcoe North*): I think there is a request for a public hearing in respect of this abandonment. I believe that has been made to the board of transport commissioners.

Mr. GORDON: I was inquiring whether or not this is before the board of transport commissioners. If it is, then anybody can make representation to the board as to why they think it should not be discontinued. We will provide the figures and all the information about it. The board will have to make up its mind with regard to the public interest as to whether or not those trains will be abandoned.

Mr. OUELLET: Will they make a report to me on this?

Mr. GORDON: You can go to the board yourself if you wish to. We have made an application to the board of transport commissioners for an order permitting us to implement this proposed change. No date has been given for the public hearing and no date will be given until the board has had an opportunity to examine the application. Our trains will continue to operate until there is a final decision by the board. When that hearing comes up you or anybody else in the community may appear before the board and make representations. You can arrange to be notified simply by getting in touch with the secretary of the board of transport commissioners and he will advise you when the hearing is coming up.

Mr. ENGLISH: Mr. Chairman, I would be interested in knowing if Mr. Gordon has received any complaints concerning the service given by the C.N.R. between Matapedia and Gaspé.

Mr. GORDON: Complaints of what character?

Mr. ENGLISH: The service given.

Mr. GORDON: The passenger service?

Mr. ENGLISH: Yes.

Mr. DEMCOE: We have two trains. We have a Budd liner operation and in addition we have a mail and express train which also carries passengers. So far as I am aware we have had no complaints regarding that service.

Mr. ENGLISH: The reason I am asking this question is that I have received many letters and complaints about the services. With your permission I will read one of these letters which was sent to the chairman of the Canadian National Railways, Ottawa, Ontario, on November 7th:

Dear Sir:

Members of the Municipal Council of Chandler wish to protest to the authorities of the Canadian National Railways against the deplorable passenger service on weekends and certain legal holidays.

On Labour day, Thanksgiving day and, more recently, on October 31 and November 4, the service was not very satisfactory.

On November 4, 60 persons were picked up at Chandler by the rail liner from Gaspé and had to stand up, as did the passengers taken at Newport, Gascons, Port Daniel and Paspébiac, till New Carlisle was reached; then, from New Carlisle on to Matapédia, dusty old railway cars were made available for passengers by the C.N.R. authorities.

We feel there should be no repetition of such incident and that the C.N.R. authorities should immediately inquire into this situation with a view to determining the cause of the poor service given our district, particularly on long week ends and legal holidays.

Yours truly,

Alexandre Cyr,

Secretary Treasurer City of Chandler.

It seems, Mr. Chairman, that this branch of the railway line is a dump for old cars that the C.N.R. cannot use in any other part of the country.

Mr. GORDON: I will be very glad to take note of the complaint and have it thoroughly examined. I have learned now that a letter has been received during my absence and the officials have been asked for a report. I have not yet received the report. If the facts are as stated, you can rest assured that corrective measures will be taken.

Mr. ENGLISH: Is it possible to know if the branch of the C.N.R. from Matapédia to Gaspé is operating with a profit or a deficit?

Mr. GORDON: I am pretty certain that that branch of the line is not a profitable operation. It is a very difficult operation to start with, as you know, However, that should not affect this service.

Mr. ENGLISH: No.

Mr. GORDON: I will give you a report as soon as I determine the facts. I have learned from experience that most of these letters of complaint are perhaps a little exaggerated. We will find out the story. There will always be difficulties under conditions of peak loads, such as when there is a big storm and everybody finally finds that they cannot drive their car. In such an event they flock down to the station and try to get on the train and it is unreasonable to think that we can take care of that sudden influx of people who normally do not use the train. In respect of the Labour day situation, I would expect to find 80 or 90 per cent of these people do not use the train at all normally and flood on to the train because of weather or road conditions, or things of that kind.

Mr. ENGLISH: But at this time of the year we do not have any storms.

Mr. GORDON: Well, I do not know, however, I will look into it.

The CHAIRMAN: Is there anything further?

Mr. ENGLISH: No.

Mr. CARTER: Mr. Gordon, you spoke just now about where a line was dormant there was an obligation to maintain the service, and I would like to ask you what factors caused the curtailment of the service in Newfoundland.

Mr. GORDON: The major factor is the demonstrated need in respect of utilization of the services we are providing. When we studied these changes in service we gave very careful examination to the whole situation. From the figures I have here passenger travel in the Newfoundland area has been steadily declining, to the extent that in 1961 we carried just below 40 per cent fewer revenue passengers than in 1957, on trains one and two, while concurrently the volume of mail and express traffic has been steadily increasing. What we are doing is following this trend; that is, reducing the passenger service and increasing the mail and express service. So we are responding to the demands of the public in regard to what they want in connection with service.

Mr. CARTER: A few moments ago you spoke about the service between Montreal and Ottawa and the difficulty in regard to intermediate points. As you know, there is no other railway in Newfoundland with the exception of the C.N.R. At this time of year, when you have curtailed our service, the roads are not in very good condition. The weather and other factors as well limit alternate service. You mentioned that the automobile is the main competitor. I assure you that such is not the case in Newfoundland. There are many people during this period of inclement weather who require a service and they are going to be put at a very great disadvantage. I can understand your problem when you say the railway service does not pay. However, there is still this obligation to provide a service.

Mr. GORDON: Yes, but I would like to point out that we are not eliminating the service; we simply are reducing it. A man who may want to travel on Tuesday may have to wait until Wednesday; but that does not mean we are eliminating the service. There just are not enough people available and ready to travel to justify a daily service, and we have cut it down to what we think is reasonable in terms of providing for the actual public demand. There will be occasions when a person will be inconvenienced by preferring to travel on one day rather than on another. We have cut it down to three times a week.

Mr. DEMCOE: As well, we have a mail and express train which has one or two coaches for the people who travel between intermediate points, and that is on a seven day basis.

Mr. CARTER: And if I might say so, your service is not reliable during the winter months, mainly due to fog, snow squalls and so on, and because of that you have a huge accumulation of passengers at St. John's. These people have to wait as well and this causes congestion and an inconvenience to the travelling public. It would appear to me that you have curtailed your service without taking these factors into consideration.

Mr. GORDON: We have not done that. After all we have only reduced that portion of the service which has to do with sleeping cars; there is a daily service for the person who cannot wait until the next day. As I said, our examination of the traffic does not reveal to us any congestion in the sense that people are clamouring to get on the trains.

Mr. CARTER: As you know, this alternative service which you provide, consisting of a coach on a mail car, does not provide for meals and, as you know, there are no restaurants along the route. There is neither sleeping nor eating provision made and anyone who travels on that train is really undergoing a great hardship.

Mr. GORDON: I would not say a great hardship but there is a lower degree of comfort than that which would be available on the following day.

Mr. CARTER: But we already have a lower degree of comfort.

Mr. GORDON: In Newfoundland?

Mr. CARTER: Yes.

Mr. GORDON: Well, you people look awfully comfortable to me—at least, any whom I have met.

Mr. CARTER: But we do not travel too much on the train. You should see the poor fellows who have to do that.

The CHAIRMAN: And that is saying nothing for the people who have to walk.

Mr. CARTER: At this time I would like to revert to the branch lines— and I have complained about this on numerous occasions. In particular, I am referring to the branch line to Argentia, where you get on a train at 8.30 in the morning and it takes you until 3 or 4 o'clock in the afternoon to go 80 miles. As well, you are hitched on to one of these trains which go right across the country, and this involves the switching of cars and so on. It makes it very difficult for the women and little children as there is no way to get any meals. And, when you get to Argentia very often there is no place to eat there and you have to wait until you get on the boat. I think that some rail liner or some sort of a service should be instituted, even if it is a bus service, if you could arrange it.

Mr. GORDON: Well, in a general way I am quite sympathetic with the point of view you are expressing. But, you have to keep in mind that people who prefer to have the advantages of living in an isolated area in Newfoundland have to take what that entails. Some people like to live in these out of the way places for reasons affecting their own personal lives. It is quite true the amenities of these villages and small points are much less, generally speaking, than in cities and other places—and that applies not only to the matter of transportation; it applies to everything. They have to take the bitter with the sweet. I keep on coming back to my main point; we will provide a service at any point where it can be demonstrated the people are willing to use the service to an extent of covering our costs. We have tried in all these cases to see what we could do and it has been demonstrated that there are not sufficient people to use the service, or else they prefer to use some other type of transportation.

Mr. CARTER: Is there any special relationship between the C.N.R. and the government with respect to the Newfoundland railway, as the government owns the Newfoundland railway?

Mr. Gordon: Do you mean the government of Newfoundland?

Mr. CARTER: No, the government of Canada.

Mr. GORDON: It is part of the C.N.R. system and, as such, it has exactly the same relationship as any other part of the railway entrusted to the C.N.R. system.

Mr. CARTER: If the government of Canada requested you to initiate a certain type of service in Newfoundland and said that they would pay a subsidy what then?

Mr. GORDON: We would be glad to respond to such a suggestion.

Mr. CARTER: So it really boils down to the fact that—

Mr. GORDON: Somebody has to pay for it.

Mr. CARTER: I hope the minister is listening.

Mr. GORDON: But remember what I said; somebody has to pay for it. If there was a general policy adopted in this regard—say, the government of Canada wanted a certain type of service in Newfoundland and were prepared to pay the subsidy—there would be many other places in Canada that would like the same kind of treatment.

Mr. CARTER: You cannot go on forever making decisions in regard to the number of passengers you are carrying, because there is an obligation somewhere on the government or the railway to provide services, and services at a reasonable standard.

Mr. GORDON: If there is no alternative service, a different situation would exist.

Mr. CARTER: There are no alternative services in this case. In Newfoundland there are fewer alternative services than anywhere else in Canada, and at the commencement, our services are below standard.

Mr. GORDON: I can say in a general way that relatively, during my time of office anyway, there has been more done to improve the services in Newfoundland than anywhere else in Canada on the national system. It may be that you still have specific places where you feel that all is not done that should be done, but I can tell you that there has been a distinct preference in respect of our capital expenditures in Newfoundland. When we took over the railway, as you will appreciate, it was in pretty poor shape.

Mr. CARTER: Oh, yes.

Mr. GORDON: No one knows that better than you.

Mr. CARTER: That is right.

Mr. GORDON: We have spent a tremendous amount of money in an attempt to bring that service up to the standards enjoyed by the rest of Canada. There are many areas of improvement in existence there, but one cannot build Rome in a day, and we have done quite a bit in this regard.

Mr. CARTER: Newfoundland did have, as you say, a very dilapidated railway which was worn out during the war years as a result of overburden. Thirteen years have now elapsed and our services have not improved to any great extent. When Newfoundland became a province it did have a cross-country passenger service, even though it was very poor.

Mr. GORDON: Did you have a daily service then?

Mr. CARTER: Yes.

The CHAIRMAN: Do you have a provincial highway in Newfoundland?

Mr. CARTER: No, we do not have provincial highways.

The CHAIRMAN: You do not have a provincial highway?

Mr. CARTER: No. A provincial highway would not be of much assistance in any event.

Mr. RIDEOUT: Mr. Chairman, we have a service in the maritimes as Mr. Gordon realizes, which, if adopted in Newfoundland, might provide some assistance. There is such a service from Montreal east to Halifax, and the passenger patronage has increased tremendously. I understand there is a profit to be gained by the C.N.R. I think perhaps the company has had it in mind to extend this service to other parts of Canada on the same formula. Perhaps the president would like to say something in this regard.

Mr. GORDON: I do not think there is much I can say apart from repeating the fact that we are anxious to provide good services wherever we can demonstrate that we can make a profit. However, I would like to mention in regard to your last point respecting the Newfoundland services that during the winter of 1948-1949 there were four trains per week in each direction between St. John's and Port aux Basques and two per week in each direction from St. John's and Corner Brook. Between St. John's and Port aux Basques the three passenger trains took 25 hours 40 minutes to make the trip with only one exception in one direction. This was the Sunday morning train from St. John's which took 22 hours 30 minutes. The local express has required 28 hours 30 minutes westbound and 27 hours 45 minutes eastbound.

The Canadian National has augmented and improved the St. John's—Port aux Basques service since confederation. Today, there are ten trains per week in each direction, six more than in 1948-49, and three of these are passenger trains which make the trip in 22 hours 45 minutes, a reduction of three hours. Owing to heavy express mail traffic the mixed trains take somewhat longer.

Mr. CARTER: Yes, I can debate this with you. You said there were ten trains now but only three of these are passenger trains; whereas the four trains you spoke about before were passenger trains, were they not?

Mr. GORDON: What do you mean when you say that only three are passenger trains?

Mr. CARTER: Only three in each direction. You only give us three cross-country trains.

Mr. GORDON: You are distinguishing between sleeping cars and coaches?

Mr. CARTER: Yes.

Mr. GORDON: You remember that this is just a seasonal winter adjustment in relation to the traffic offered during that time.

Mr. CARTER: I want to come back to your original position on this, that there is an obligation resting on the dominant railway. Do you have any level below which you are not permitted to go? Conceivably this can keep on falling but there will still be a need for some railway service.

Mr. GORDON: Would you push your argument to the extreme and say that if there is only one passenger who wanted to travel that we should nevertheless run the train?

Mr. CARTER: No, because that is not a reasonable assumption.

Mr. GORDON: What point is reasonable? I would say that it would only be reasonable when we had a sufficient number of passengers to pay the operating cost of running the train. I am asking that the operating costs be covered by patronage.

Mr. CARTER: I think that other circumstances have to be taken into consideration. If you follow that, you would have no passenger trains, or very few, in Canada.

Mr. GORDON: Yes, you would because remember that you take that one step forward. In many of these passenger services, as I explained to Mr. Chevrier, there are not enough passengers to cover the operating costs. The board of transport commissioners will then, under the MacPherson commission recommendations, sit in judgment of the public interest and if they find that a service is justified because of inconvenience, hardship, or anything else that will come into it, they will order us to continue that service and pay us the difference between the operating costs and the revenue.

Mr. CARTER: Who initiates that decision?

Mr. GORDON: It depends on the legislation based on the MacPherson commission. There will be quite a simple means of doing it, I am sure.

Mr. CARTER: I want to come back to another point, the passenger fares that you initiated between Halifax and Montreal. Before you could get a room at somewhere around \$17 or \$18, while now you pay double that and all you get in addition is two extra meals.

Mr. RIDEOUT: You can get a cheaper rail rate.

Mr. GORDON: You are talking about our red white and blue fares. They have been very successful. We are getting people back on the train.

Mr. RIDEOUT: That is what I wanted to say.

Mr. CARTER: Are you not losing traffic? Are you increasing it? In other words, you are increasing one kind of traffic but you are losing another.

Mr. GORDON: No, the basis of red white and blue fares is to divide the calendar into different periods of penetration, so to speak. When you are in the season of the year when our trains are jammed anyway, you will pay the normal fare, but there are two areas where our trains are not well patronized. The bargain fares are the red tickets, and these are in effect during May and from October 1 to April 30. That is as it stands now. The total will be 162 days, consisting of Mondays, Tuesdays, Wednesdays, Thursdays and Saturdays but excluding such holidays as Christmas, New Year's and Easter, periods falling on those days. The economy fares are white tickets. These will be in effect during about 142 days of the year, Fridays and Sundays from May 1 to May 31, 1962 and from October 1, 1962 April 30, 1963, on Mondays, Tuesdays, Wednesdays, Thursdays and Saturdays from June 1 to September 30, excluding holidays such as Christmas, Easter, Thanksgiving, falling on those days. The standard fares are the blue tickets. These will be in effect during approximately 61 days of the year, Fridays and Saturdays from June 1 to September 30 and holidays such as Christmas, New Year's, December 31 and January 2, Easter, Dominion Day, Labour Day, and so on. When they fall on an off period or on days when trains are normally little patronized, you pay the standard fare. What we try to do is fill our trains in those periods when we find that they are not well patronized.

Mr. CARTER: And to do that you have a package deal which includes the railway fare, plus meals and plus room.

Mr. GORDON: It varies.

Mr. CARTER: And it is cheaper.

Mr. GORDON: Yes, it is intended to be cheaper, if I may use that term, as an incentive fare to encourage people to travel by train; and the more people there are in a given party purchasing that type of fare, the cheaper it becomes.

Mr. RIDEOUT: It is tougher on the pass holder.

Mr. GORDON: We do not include the pass holder as a revenue passenger.

Mr. CHEVRIER: May I direct your attention to the facilities of the Canadian National Railways in entering Montreal. Have you now completed work on the road bed in the vicinity of Dorval, and from there into Montreal?

Mr. GORDON: I believe so. Am I right?

Mr. DEMCOE: Yes; the general construction work is finished, but there is still a little bit of maintenance to do; and each spring, after the winter frost, there is some subsidence, but that is gradually being overtaken. In future years there should be very little to do with the exception of regular maintenance.

Mr. CHEVRIER: Are you satisfied with the length of time it takes from, let us say, Dorval to get into your new station in Montreal? Is there no way to eliminate the length of time that it takes to go from there in? Have you given any consideration to it?

Mr. FISHER: Could you not do it in nothing flat?

Mr. DEMCOE: Yes, we are working on that. When the tracks in the Turcot area are removed, we will have a straight track from Dorval right through to the east end of Turcot.

Mr. CHEVRIER: And then you will be able to increase your speed?

Mr. DEMCOE: At the present time we have switches to go through, particularly at the west end of Dorval and Turcot, as well as at the east end of Turcot, and this restricts the speed.

Mr. CHEVRIER: What is the length of time it takes from Dorval to the new station? Do you not think it is an undue length of time?

Mr. DEMCOE: Yes, but that is because of the interlocking plan of the switches, and because of the bridge over the canal.

Mr. CHEVRIER: The other evening the bridge broke down and passengers were held up for almost an hour. Has the railway made any comparison of the length of time it takes to get into the old Bonaventure station as compared to the length of time it takes to get into the new station? I ask that because I believe there was a considerable saving in time leading into the Bonaventure station as compared to the new station.

Mr. DEMCOE: I do not know. I was not around when they operated into the old Bonaventure station.

Mr. GORDON: This interests me. You are saying that we did a better job in time from Dorval into the Bonaventure station than we do from Dorval into the present station.

Mr. CHEVRIER: No, I did not say that. I said that as it stands now, the length of time from Dorval is greater because of the changes in grades that the train has to take. These impede not only the operation of the railway, but are most annoying to the passengers. As to the length of time, of course, you have a train operating at 80, 90 or 100 miles an hour today as compared, perhaps, to 40 miles an hour then; but if you were carrying on with the same equipment today into Bonaventure, it would take you from 5 to 7 minutes as compared to 25 to 30 minutes sometimes.

Mr. FISHER: The schedule calls for from 25 to 27 minutes.

Mr. RIDEOUT: For how many miles?

Mr. CHEVRIER: It is 7, 8, or 10.

Mr. GORDON: I would be glad to look into it. I know that some years ago there was some discussion at the time they put this track in; but I was left with the impression that we would not be prejudiced in the matter of time. However, I will be glad to look into it.

Mr. CHEVRIER: Having regard to the fact that you have spent a great deal of money in that area, it seems to me that the time to reach Montreal from Dorval could be reduced.

Mr. GORDON: Our running time from Montreal to Ottawa has been reduced in recent years.

Mr. CHEVRIER: Yes. You go like hell once you get out of Ottawa and until you get to Dorval, but after that —

Mr. GORDON: Then you get into a bottleneck.

Mr. FISHER: I think the C.P.R. is about six minutes faster.

Mr. DEMCOE: It is 11.8 miles and takes 25 or 30 minutes. Number 51 takes 35 minutes; number 53 takes 30 minutes.

Mr. FISHER: I would like to ask the permission of the committee to revert to highway services for two general questions.

Mr. CHEVRIER: I think Mr. Fisher should be entitled to ask his question.

The CHAIRMAN: He wishes to ask two general questions.

Mr. FISHER: They are general, and the first is in respect of a public discussion that is taking place with regard to a general federal or national authority for trucking. The debate and public discussion are on the merits of it. I want to know whether or not the C.N.R. has stated any policy with regard to this general question.

Mr. GORDON: No; we have not.

Mr. FISHER: No statements?

Mr. GORDON: No statement of which I am aware; certainly nothing with my authority.

Mr. FISHER: The second question relates to the membership and participation of members of the various trucking organizations which have become part of the Canadian National Railways in provincial and federal trucking associations. My question is a general one. Has the railway considered this matter as to whether or not these representatives should continue to be members?

Mr. GORDON: Yes, we have. So far as I know we are members of any of the recognized associations.

Mr. FISHER: I notice the head of East-West is an executive of the Canadian Trucking Association. I would like to find out whether any consideration has been given to withdrawing from this membership.

Mr. GORDON: No; we would not withdraw. We regard it as beneficial for us to be members of those associations in order to hear the discussions. We are in the trucking business.

Mr. FISHER: My other question relates to passenger services. I have no more questions in respect of trucking or highway services.

Mr. CHEVRIER: On passenger services, may I ask a question to complement one I asked the other evening. In connection with the Union station in Ottawa and the withdrawal of the services to Hurdman's bridge, I wish you would give us a little more information on this. My question now is, what effect is this withdrawal of the service to Hurdman's bridge going to have on the operation, for instance, of the Chateau Laurier?

Mr. GORDON: It is difficult for us to pinpoint that. I think it will be damaging and I so stated when we made representations against the move of the station. It is quite obvious that we will lose the advantage of bringing passengers practically right into the hotel. Therefore, the airlines will be made more or less equal to us. We had the advantage over the airlines because there was a long drive from the airport to the hotel. We will lose that advantage. I think there are people who will tend to say "there is not much difference now and we might as well go by air".

Mr. CHEVRIER: In the negotiations between the national capital commission and the railways has there been any consideration of a road that would follow along the canal from Hurdman's bridge right to the vicinity of the Chateau Laurier.

Mr. GORDON: I understand there is going to be a speed-way of some kind that will give us pretty good access from the station right to the centre of the city; but I cannot give you any definite information. However, I am told that is in the city plans.

Mr. CHEVRIER: Have you seen those plans?

Mr. GORDON: Yes.

Mr. CHEVRIER: Can you give us any more information on it?

Mr. GORDON: Not any more than the fact there will be a road that is intended to be a sort of speedway, within city regulations, of course, and it will enable the trip from Hurdman's bridge to downtown Ottawa to be made in something like ten or fifteen minutes.

Mr. PASCOE: I wanted to ask Mr. Gordon a question about Budd cars but the Chairman did not catch my eye.

Mr. Demcoe referred to a very successful operation in the use of Budd cars in the west. Also, Mr. Gordon has referred to the all-out effort to encourage people to use the passenger service on the trains. Although my question might be a hypothetical one, suppose there was a danger of a community losing the regular passenger service, would the railway be interested or willing to perhaps put on the Budd car service on a trial basis, fit the schedule for the convenience of the people, and advertise it "Use or Lose"?

Mr. GORDON: Before we give up any passenger service we will examine the situation to satisfy ourselves as to whether there is any form of service the public will patronize to allow us to break even. We do not like to withdraw the service but we do it under economical stress.

Mr. PASCOE: You would be willing to put on a Budd car service?

Mr. GORDON: We will put on anything the public will use.

Mr. BADANAI: You made a statement a few moments ago that the red, white and blue plan has proved a great success and increased passenger service by 70 per cent in the maritimes; has management given any consideration to applying this plan to other parts of Canada, such as between the lakehead and Winnipeg?

Mr. GORDON: The red, white and blue plan is still in the experimental stage, and while the initial response has been quite encouraging we are not yet finished with the trial basis—at least, we have not looked at it long enough to determine if it is the answer because this is an experiment in the use of fares which, we hope, will prove to be an incentive for the public to travel. Before we would enlarge and extend it into other parts of Canada we would have to have the same general conditions. This red, white and blue experiment was particularly suitable for our maritime trains and, at the moment, I am doubtful whether it can be applied elsewhere. However, we are studying the matter and if we feel it will help to get passengers we will have it.

Mr. BADANAI: Could that plan be applied in connection with a decision made by management in regard to the curtailment of the train between the lakehead and Winnipeg?

Mr. GORDON: Do you mean would we consider doing this?

Mr. BADANAI: Yes.

Mr. GORDON: We will consider putting it anywhere where it seems to be workable. However, we have to finish our experiment in the maritimes first.

Mr. BADANAI: You also made a statement that if it does not prove very successful—

Mr. GORDON: If I may interrupt, the point there is that this is a new gimmick. We have found from experience that the public likes new gimmicks. The public has responded well to the first approach, but whether that will continue remains to be seen. We need to have at least a year, four seasons, or even longer before we can ascertain how the public has received this. We find that people will patronize these new services in the early stages. We put in something new and we immediately get a curiosity response. It is only natural that people like to try out new things. However, we want to find out whether it will be a continuing type of service.

Mr. PUGH: Although this is not really relevant I was wondering whether, while we are on colours, there is any significance in the fact that deficits in the 1960 report are shown in blue? They are shown in brown this year? What are they going to show for next year?

Mr. GORDON: This involves a pure printing matter. It was found that we were able to produce the report by using two colours. You will notice the colour we used here for the headings is a two-toned colour. That is all the significance there is there.

Mr. PUGH: I wondered whether you felt blue last year and "browned-off" this year.

The CHAIRMAN: This colour perhaps has a softening effect.

Mr. FISHER: Mr. Chairman, I should like to ask Mr. Gordon some questions relating to commuter services in the metropolitan area of Toronto.

The suggestion has been put forward, again in public discussions, particularly in the three Toronto newspapers, that with a move toward the consolidating of the metropolitan transportation system it might be feasible for the railways to operate commuting services for the transport commission on a cost basis, or on a lease basis so as to improve the whole traffic picture in that city. I should like to know how seriously the railway company may have looked at this situation and what might be in prospect.

Mr. GORDON: What I think I tried to say was that when we get our new marshalling yard completed in Toronto, along with the access lines that have to go with it, we will expect that that will relieve the heavy congestion that exists on approach lines into Toronto. These lines are all aimed toward the downtown area and have created intolerable congestion. When we complete our new yard these lines will be relieved, and we hope that we will have the physical capacity to operate commuter trains at a profit, and that we can work out a bargain with the authorities to make sure that we can cover our costs. We are perfectly willing to enter into discussions with the authorities on that point at any time.

This would really mean I think that we know that we cannot run a commuter service on a profitable basis. We cannot run any commuter service on a profitable basis.

Mr. FISHER: I should like to interject a question here. Are there any commuter services in North America that are considered profitable by the lines that operate them?

Mr. GORDON: There are none that I am aware of. The peak load creates a problem, as I have explained many times.

Mr. FISHER: Are there any arrangements in existence in North America that you are aware of under which railways lease their facilities to transportation companies which are tied in with municipal bodies?

Mr. GORDON: I cannot speak with assurance in this regard, but I believe there was an arrangement in that regard in Boston and there might also be some discussions in that area in Philadelphia. However, I cannot be definite.

There have been discussions taking place with authorities in various areas in the United States to attempt to find out whether an agreement could be reached to either initiate or continue commuter services on the basis that the municipal authorities, or whatever the body involved, pay part of the cost.

Mr. FISHER: This question is hypothetical, but would it be necessary to operate a dual arrangement as between both the Canadian Pacific and the C.N.R.?

Mr. GORDON: No, it would not have to be a dual arrangement. One of the big difficulties in the city of Toronto in this regard results from the fact that the metropolitan authority objects strongly to paying part of the cost of moving commuters who live outside the city area, and there are quite a number of areas involved. How they will reconcile that between themselves I do not know; however, that is a problem in the metropolitan area of Toronto.

Mr. FISHER: What is the situation at the present time as far as you know?

Mr. GORDON: There have been no positive discussions since I last appeared before you.

Mind you, the yard that I referred to will not be finished until around 1964.

Mr. FISHER: Returning to the Montreal situation, has there been any discussions concerning the development of the Montreal subway?

Mr. GORDON: Yes, having to do with the use of our tunnel. Those are going on actively at the present time.

Mr. FISHER: Beyond the tunnel, have any of your other lines been considered?

Mr. GORDON: There is a continuation of the service beyond a point outside the tunnel.

Mr. DEMCOE: To where the line crosses the north-south line, and then you continue on to St. Eustache.

Mr. FISHER: I want to ask a question in relation to Montreal and the Victoria bridge. Is that a legitimate question to ask here?

Mr. GORDON: It is all right with me.

Mr. FISHER: Your revenue from tolls ceased, as I understand it. I wanted to ask you a general question: did you have discussions with the government prior to the abolition of the tolls?

Mr. GORDON: On the basis of abolition of the tolls? We had a discussion with the government, not on the policy question of abolition of the tolls, but we did have discussions with the government and reached a bargain with them as to how we would be compensated for the abolition of the tolls.

Mr. FISHER: Is that secret?

Mr. GORDON: It has not been finalized yet. It is in the process now. The document has not been signed, as far as I know. We have a gentlemen's agreement on it.

Mr. FISHER: The one question I wanted to have clear in my mind is this: I understand the C.N.R. has spent a considerable amount of money in recent years on that bridge. Is the agreement going to take care of the costs?

Mr. GORDON: There are two things involved there: one is the question of tolls on the roadway. That is the agreement I am talking about, the agreement with the government that will fully compensate us for the loss of the revenue. It will be based over a certain period of time so that it will cover what we intended to cover when we spent the money on the roadway. That

is a question in isolation. The big question is compensating the C.N.R. for the diversion part of the bridge that was necessitated by reason of the St. Lawrence seaway, digging a canal in dry land and cutting our bridge.

Mr. CHEVRIER: Don't tell me that is not settled yet?

Mr. GORDON: You will see it in our annual report. It appears on page 24 as a note on our balance sheet.

The company's expenditures related to the track diversion and re-arrangement of the approaches to the Victoria Jubilee bridge necessitated by the construction of the St. Lawrence seaway are included in other assets pending settlement with the St. Lawrence seaway authority of the company's claim including interest, amounting to \$13.5 million.

That claim is now in process of being dealt with by the Minister of Transport under an agreement between the seaway and the C.N.R. in respect of the amount of money that is recoverable.

Mr. FISHER: I would like to ask the minister a question relating to the first part I brought up. Will the information be made available to us as to the agreement that you reached in regard to the tolls with the C.N.R.?

Mr. BALZER: I would think so. I would not like to give a legal opinion.

Mr. CHEVRIER: Will it require legislation?

Mr. BALZER: I do not see any reason for it.

Mr. FISHER: Why not?

Mr. BALZER: I do not see any reason why it should not be made public.

Mr. FISHER: I have some further questions on passenger service.

Mr. FAIRWEATHER: Mr. Chairman, I have been very quiet, but there is a bridge problem I would like to ask about. I wonder whether the system views with sympathy the use by other carrier of the bridge over the Saint John river at Fredericton? I know it has been discussed for some years, and that from an engineering point of view it has been proved feasible. There is no longer a passenger service now between Fredericton and Newcastle, and I know that the authorities in Fredericton hope for the joint use of this bridge. I know that joint use has been the case in many parts of Europe.

Mr. GORDON: Well, I was just checking my recollection with Mr. Demcoe. This is an old chestnut, as you say.

Mr. FAIRWEATHER: Yes, but I am a new tree.

Mr. GORDON: The real point of the discussion is based upon two things: firstly, whether or not we can adjust our operations in such a way that we can sensibly make the bridge available for other purposes; and secondly, if we were to find that possible, whether or not we would receive payment for it.

In any discussion we have had the general expectation has been that we would do it for nothing. But we do not like doing things for nothing, so the discussion goes on.

Mr. FAIRWEATHER: I agree that it should not be done for nothing. But there is no engineering reason against it, is there?

Mr. GORDON: No, but there may be a railway operating reason.

Mr. FAIRWEATHER: Oh, that would be quite legitimate.

Mr. GORDON: However there is no engineering reason so far as I am aware.

Mr. DEMCOE: No.

Mr. CHEVRIER: May I carry on from where Mr. Fisher left off? In connection with the diversionary bridge over the St. Lambert locks, is that bridge operating in the manner which the Canadian National Railways anticipated?

Mr. GORDON: Yes, the operation is quite satisfactory now.

Mr. CHEVRIER: There is no loss of time by the train?

Mr. GORDON: Yes, there is a loss of time but only in the sense that it is a longer route. However it is not serious. It takes a little longer to get over the bridge on the diversion than it did on the original bridge.

Mr. CHEVRIER: And you say that is because the distance is longer?

Mr. GORDON: That is right.

Mr. CHEVRIER: But there is no hold-up of time?

Mr. GORDON: No. The trains automatically select whichever bridge is the correct route, and it is operated on signals.

Mr. DEMCOE: There is a curvature which affects our speed when going around there.

Mr. CHEVRIER: And that is an operation which has been going on for the last four years.

Mr. GORDON: No, not quite that long.

Mr. CHEVRIER: How long has it been in operation?

Mr. DEMCOE: Fully, I would think, for a year.

Mr. GORDON: There was a temporary period when the railway had control of the operations until the diversionary bridge was finished. My recollection is that the completed operation of the bridge was about a year and a half ago—

Mr. DEMCOE: It was quite some time after the seaway was built.

Mr. CHEVRIER: On the Montreal side of the bridge are there any further facilities envisaged by the railways to speed up automobile passage?

Mr. GORDON: No, not to my knowledge, no. You say on the Montreal side of the bridge?

Mr. CHEVRIER: Yes.

Mr. GORDON: No, not by the Canadian National Railways. The problem there, if there is one, is a city problem of access to the bridge.

Mr. CHEVRIER: I return now to the agreement made by the Canadian National Railways some years ago now; I think it was 7 or 8 years ago.

Mr. GORDON: It was 1956 when we made the agreement.

Mr. CHEVRIER: What has happened in the intervening years from that time until you say the minister now is going to be the referee?

Mr. BALZER: We have taken steps, as you know.

Mr. CHEVRIER: May I find out from the president first of all, and then ask the minister about it. I was trying to ascertain from the president what steps had been taken between 1956 and the time the minister has been appointed as referee to bring about a determination of the issue as between the Canadian National Railways on the one hand and the Seaway Authority on the other?

Mr. GORDON: You will recall this when I recite the sequence of events. First of all, when the Seaway Authority applied for permission to cut the bridge the Canadian National Railways objected. Because this was an embarrassment for everybody that is one crown body involved in a dispute with another crown body before the board of transport commissioners, we reached an agreement between us whereby steps would be taken to meet the railways needs involving the matter of a diversionary bridge. It was decided then that the railway would proceed and put in the facility which they felt was necessary to protect their interests and finance that in a suspense account until the whole thing was completed.

Then, when it was structurally completed and there had been sufficient time in operation to demonstrate all the factors involved—because in the interim we kept a record with regard to interruptions and so on. The seaway authorities and ourselves sat down to see if we could reach an agreed settlement concerning

the situation, the facts and the principle of payment. There had been so many changes in the personnel of the seaway that there is nobody there now who really knows anything about it, and naturally the people who are there now are dutybound to protect the seaway interests. We were to see if we could reach an agreed settlement. We had to fall back on the document which said that if we could not agree, the minister would arbitrate the claims. Then each one of us made submissions to the minister in the early part of this year. We each made our submission to the minister and just recently the minister has taken steps whereby he will deal with the matter, and I turn to him.

Mr. CHEVRIER: I was going to follow that up by asking the minister what method he is following to determine the issue.

Mr. BALCER: Mr. Chairman, we have appointed Mr. Justice Locke, a former justice of the supreme court, to act as a referee between the two crown companies. We have asked him to study the situation and come up with his report to me on the matter. Mr. Justice Locke is working on it at the present time.

Mr. CHEVRIER: Have representations been made by the authority to the minister?

Mr. BALCER: Both sides have made their submission.

Mr. GORDON: They are actively engaged in it right now.

Mr. BALCER: It took a long time to untangle what had been done by the administration.

Mr. CHEVRIER: I do not know about that, but I do know you made a considerable reduction in your claims.

Mr. GORDON: No.

Mr. CHEVRIER: My recollection is that it was in the neighbourhood of \$25 million.

Mr. GORDON: No, never. The highest estimate I think was in the region of \$16½ million, but at any rate it was only an estimate. We always said that all we wanted to get was the actual money spent. If you feel that way about it, I wish you could appear as a witness.

Mr. CHEVRIER: I am willing to appear as a witness, but I am afraid I would not do your case too much good.

Mr. GORDON: I am not too sure; perhaps you might.

The CHAIRMAN: Are we ready to pass passenger services? I might observe that we started this morning on highway services, got into passenger services, and wound up back on highway services again. We have not made very much progress this morning. Mr. Lamoureux has a question.

Mr. LAMOUREUX: I have just one question. I wonder whether the president had agreed in advance to accept the decision of the minister?

Mr. BALCER: Yes. They both agreed in advance that they would accept Mr. Justice Locke's decision.

Mr. GORDON: May I make a short statement. It has been called to my attention that I may have made a misleading statement. I did not intend to convey the impression that any of the existing members of the seaway authority knew nothing about it in the sense that they are not well informed. I merely meant that they were not present at the time this agreement was arranged. They know all about the case and are quite competent to represent the seaway. I did not mean to cast any aspersion on their ability to represent the seaway.

The CHAIRMAN: Gentlemen, we will meet after the orders of the day.

Mr. BENIDICKSON: May I raise one point, Mr. Chairman?

The CHAIRMAN: No; it is 12.30.

Mr. BENIDICKSON: This involves a duplication of discussion.

The CHAIRMAN: I beg your pardon?

Mr. BENIDICKSON: This involves a duplication of consideration; that is, by parliament and the C.N.R. It is a very big factor; it concerns employees' displacement and retraining, and the debate proceeds this afternoon. Has the C.N.R. executive consulted the Minister of Labour and the Minister of Transport in respect of their plans relating to the debate that will be going on in the House of Commons this afternoon?

Mr. CHEVRIER: It is the Minister of Labour's resolution on manpower and retraining.

Mr. FISHER: Is Mr. Benidickson suggesting we should adjourn until after that debate?

Mr. BENIDICKSON: No; I am asking if there has been consultation about the formal debate this afternoon in connection with the government's plans of retraining of employees displaced by automation and through other circumstances.

The CHAIRMAN: I do not think that is relevant to this.

Mr. McDONALD (*Hamilton South*): Mr. Gordon has submitted his statement on the retraining of employees and the educational facilities available, and I do not think that what is going on in the house this afternoon is pertinent.

Mr. GORDON: I am not aware what is going on in the house, so I cannot answer your question.

Mr. CARTER: I move we adjourn.

The CHAIRMAN: We will meet after orders of the day.

AFTERNOON SESSION

THURSDAY, November 22, 1962.

The CHAIRMAN: Gentlemen, I see a quorum.

Mr. RIDEOUT: Mr. Chairman, are we considering the passenger services item?

The CHAIRMAN: Yes we are, Mr. Rideout.

Mr. RIDEOUT: Mr. Chairman, I should like to make what I would refer to as an observation rather than an interrogation.

Each day in the House of Commons a question is asked in regard to the taking off of one branch line service or another by the C.N.R. in various areas. I am of the opinion that the formula that you use in this regard is not a good one.

I understand that the C.N.R. officials apply to the board of transport commissioners, and the board makes a ruling and off goes the service. Very seldom is an application by the C.N.R. to the board of transport turned down. Unfortunately every member of a constituency is affected by such a shut down of service.

I do not know the legal procedures involved in this regard, but I should like to make a comment. I have just completed a contract with a municipal bus company. If such a bus company makes an application to close down a specific line of service and the city council decides that the line from A to B within the city shall be continued they compute the cost and the people involved must pay a subsidy. I think a similar procedure should be followed in respect of the railway.

I think members of parliament in the House of Commons should have an opportunity of voicing their opinions along these lines.

I am sure Mr. Gordon would know how much it costs to maintain a specific service and I think he would be willing to continue that service providing the government picked up the tab. I think we in the House of Commons should have the opportunity of considering these things. I do not believe it is right for the C.N.R. to discontinue all these services.

After all, the two railroad companies built this nation and now we have reached the point of discontinuing the services they provide.

I had the opportunity of being on one train when it made its last run and I remember standing waiting for a carload of lumber to be loaded before it commenced its last run. Obviously, there is some business there to be conducted. I think the maintenance of some of these services is in the interest of the country and certainly in the interest of the people in the area involved.

I do not know whether this committee has any power to make recommendations, Mr. Chairman, but I do suggest that the situation in regard to these services being discontinued is becoming more and more difficult each day.

From my own experience I have come to the conclusion that a great many people are opposed to the discontinuation of these services and are very anxious to see the discontinuations stopped. I am sure that the public generally would be more than happy to pay the cost of continuing such services.

To extend this argument a little further, it is my understanding that Mr. Gordon is trying to make the system show a profit. His opinion and mine in this regard differ very greatly. I do not think a railway system is supposed to make a profit necessarily. For the sake of argument, if we considered to-morrow as the ending of a fiscal year and found that the Canadian National Railways had ended its fiscal year with a surplus of \$100 million, every board of trade, municipal council and shipping agency across the nation would ask for a cut in freight rates. As soon as that situation arose you would be faced with difficulties in refusing such applications because of the surplus. Public opinion would be that since the public had fed the railway during hungry times it should reap the benefits of good times in the form of lower freight rates. If the C.N.R. at this stage were to grant lower freight rates the C.P.R. officials would then feel that the C.N.R. was trying to put the C.P.R. out of business.

I do not think we should be concerned with making the C.N.R. a profit making system, but should be more concerned with providing a service to the public, a service which commenced many years ago across the nation.

I would like to hear some comment in this regard, because every member of this committee represents constituents who have been affected by the discontinuation of train service, and I can assure you that the public resent such discontinuation.

I understand that applications are being presented to the board of transport commissioners in respect of the discontinuation of branch lines almost every day. I am not sympathetic toward the ritual followed by the board of transport commissioners in this regard at all.

The CHAIRMAN: The board of transport commissioners is the body to which the public may appeal in that regard, and if the board of transport commissioners rules that a service, the subject of such a discontinuing of service application, should not be discontinued, then the C.N.R. cannot discontinue such service.

Mr. RIDEOUT: The board of transport commissioners sit back and pontificate. They do not go out into the area to investigate the situation. They simply make a decision on the basis of the application by the Canadian National Railways, and in order to appeal that ruling one must either appeal to the cabinet or to the supreme court.

The CHAIRMAN: Do you wish to make a comment in this regard, Mr. Gordon?

Mr. GORDON: I do not believe I have any particular comment to make. Mr. Rideout is perfectly entitled to express his point of view. He has expressed a point of view. He does not like the way things are being done and expresses an alternative way. If he has these views he can express them in the House of Commons.

Mr. RIDEOUT: I have done so.

Mr. GORDON: That is the place to express these views and if Mr. Rideout can get enough of his colleagues to support him, perhaps the government will change the procedure and that will be the end of it. We follow the law, using the courts, because the board of transport commissioners is a court. In regard to every dispute that may arise, or difference in opinion that may arise in our human relations, under our democratic system we take them to the courts. Each party to the case is entitled to express an opinion and the judge makes a ruling. We have all been brought up and educated to accept the decisions of our courts, and that is why people are able to live together with each other instead of surrendering to the uncontrollable urge that comes over us once in a while to cut each others throats. We follow the laws of the land, but everyone is completely free to express a point of view.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I should like to ask a supplementary question. I understand the C.N.R. and C.P.R. officials have made offers to municipal groups in respect of continuing service, if the municipalities will guarantee the revenues.

Mr. GORDON: There have been various discussions of that type, but I have never known of anything coming from those discussions.

Mr. SMITH (*Simcoe North*): Has any municipality come through with a guarantee in this regard?

Mr. GORDON: No.

Mr. FISHER: Before I ask a question, I wonder if I could ask Mr. Rideout whether he was talking specifically of the withdrawal of passenger services?

Mr. RIDEOUT: I was particularly referring to passenger services.

Mr. FISHER: I do not know whether it is fair to ask another member of the committee a question, Mr. Chairman, but do I take it from your remarks, Mr. Rideout, that you find that the board of transport commissioners does not go fully into the side of the problem put forward by the communities and municipalities, or is it that the railways tend to have an advantage at such hearings because of the makeup of the hearings?

Mr. RIDEOUT: I do not know that I should criticize in that regard, but this has become a matter of considerable importance. As I said in the House of Commons, the procedure is nothing but a ritual. When an application is made, and if there is some political repercussion as a result, the application is postponed for a short time but invariably it is returned, the board grants the application and the service is discontinued. The application at times may well be postponed for six months as a result of public dissatisfaction, but the end result is always the same.

Mr. GORDON: There is a perfectly good explanation for the fact that most of our applications are approved. Generally speaking again, the railway does not take a case to the board of transport commissioners unless it feels that

the evidence is overwhelming. We do not take a case before the board of transport commissioners unless we are 99 per cent sure that we are going to be successful. However, the board is by no means pro railway, I can assure you of that. We have received judgments from the board of transport commissioners in respect of an abandonment with which we fundamentally disagree just as much as you disagree on the other side. The fact that a fairly high percentage of the board of transport commissioners' rulings are in favour of the railway can be explained by the fact that the railway does not make application until it is practically certain that the evidence to be submitted is overwhelmingly in support of discontinuation.

I have before me a brief rundown of the facts that we must lay before the board of transport commissioners when we appear before them in a case of this kind. This is a list of the factors which they have informed us they need and must have in their considerations. They are as follows:

1. System revenues from branch line traffic.
2. System out-of-pocket expenses of branch line operation.
3. Estimated savings to railway from abandonment.
4. Trend in traffic pattern.
5. What is relationship between year under study and an average year (particularly for lines in western Canada where traffic is predominantly grain).
6. Present train service, type and volume of traffic.
7. Alternative services for freight, passenger, mail and express—summer and winter.
8. Distance between stations on line to be abandoned and stations on alternate lines or to alternate services.
9. Population in the area served by the line and the population trend—increasing or decreasing.
10. Productivity of the area and its potential for future growth or new industries.
11. Effect of abandonment on railway employees.
12. Effect of abandonment on freight rates and over-all cost of transportation.
13. Effect on local merchants.
14. Effect on property values, taxes, and so on.

That is only the beginning. We have to appear before the board with that evidence in regard to the actual situation with which we are dealing.

Finally, I should like to make this comment. This whole question of cutting services was dealt with by the MacPherson commission as a major point. That commission sat in respect of the railway problem, so-called, for over two years. I have forgotten just how many hearings they had, but it ran into the hundreds, and everyone was given an opportunity to express a point of view. The commission was very highly qualified and had a first class staff, and they brought in, in my opinion, one of the most thorough reports in respect of the railway problem that this country has ever seen.

In the course of that commission's recommendations it said quite clearly that the unprofitable lines should either be abandoned or, if for meritorious reasons in terms of public interest they should be continued, it should not be at the expense of the railways.

Mr. RIDEOUT: I agree with that recommendation completely.

Mr. GORDON: You agree with that recommendation?

Mr. RIDEOUT: Absolutely.

Mr. GORDON: Therefore, the case simply is that when we appear before the board of transport commissioners, they will be the judges and, although the MacPherson legislation has not been implemented as yet, they will find on the basis of the facts placed before them by parties interested, not just the railways' management. At that time if the board comes to the conclusion that a particular public interest overshadows the railway interest, then they will find in favour of continuing the service and we will get a payment for the difference between our cost and the actual revenue we are able to get on the service. This seems to me to be a perfectly fair way of handling the situation.

Mr. CHEVRIER: Mr. Chairman, I am sorry the minister is not here at this moment, but if he were here I would ask him, in view of the fact that he and those associated with him, when on the other side of the house, took the position that the board of transport commissioners should be abolished and, in fact, Mr. Howard Green moved that the estimate be reduced to one dollar, why has the present government not abolished the board of transport commissioners, having regard to the policy they suggested when sitting on the other side of the house. He is not here, of course, and cannot answer the question.

The CHAIRMAN: It is probably just as well that he is not here.

Mr. CHEVRIER: Perhaps one of his associates would answer that question.

Mr. SMITH (*Simcoe North*): That sounds like a small vignette.

The CHAIRMAN: I would hesitate to answer that question in the minister's absence.

Mr. PUGH: I would like to ask Mr. Gordon whether the C.N.R. has had any turn downs by the board of transport commissioners in respect of these applications?

Mr. GORDON: Yes, indeed.

Mr. PUGH: Could you tell us how many?

Mr. GORDON: I cannot answer that just offhand.

Mr. PUGH: I wonder whether we could be given statistics in this regard?

Mr. GORDON: Yes, we could get those figures for you. I will have to make a search in order to do so.

Mr. PUGH: Have you had one or two turn downs per year?

Mr. GORDON: I could not answer that question offhand. I would have to have the records searched in order to do so.

Mr. PUGH: Yes.

Mr. GORDON: We have had turn downs, yes.

Mr. PUGH: Perhaps we could have the statistics covering the last ten year period?

Mr. GORDON: We will check our records in this regard.

Mr. FISHER: Are you going to supply statistics in respect of passenger lines or also in respect of station abandonments?

Mr. GORDON: We can give you statistics covering both situations. As I understand it, you would like some record of the cases that we have taken to the board in connection with the abandonment of services?

Mr. PUGH: Yes, and the results of those applications.

Mr. GORDON: I understand you would like statistics as to the number granted and the number refused or postponed?

Mr. PUGH: Yes, that was the intention of my question.

Mr. GORDON: I will see what can be done in this regard.

Mr. PUGH: What sort of trend initiates your inspection of a line with the intention of continuation or abandonment?

Mr. GORDON: We constantly are watching the lines in terms of decline of traffic, either passenger or freight. If we see that a specific service is not producing, or not getting the traffic that it is accustomed to, it becomes suspect right away. It is the duty of our local officers to keep closely in touch with each train service in order to determine whether or not it is increasing, standing still or getting behind. It is the duty and responsibility of the local officer, when he sees a specific decline in any particular line, to bring this situation to the attention of headquarters management. This is part of the duty of the local officer.

Mr. PUGH: I am a little intrigued, Mr. Chairman, with Mr. Rideout's suggestion that possibly in the public interest you could go on running these trains. If this ever did come up and we were asked to give our approval or disapproval, if we were operating trains supposedly in the public interest for either passengers or freight, is there anything that we could have on cost per mile?

Mr. GORDON: That will appear when we specifically apply for any action in that respect before the board of transport commissioners. All those statistics are fully documented and anyone concerned can see them. We make our case before the board and we tell them our costs, our crew costs; we get down to individual details of operating costs, fuel costs and the revenue that we obtain in the form of passenger or freight traffic, as the case may be. However, this is a very detailed statement.

Mr. PUGH: As you say, we keep track of lines for both freight and passengers. This trend, I understand, would fall in diminution throughout the years, is that correct? Have you ever re-established a line once it has been taken out?

Mr. GORDON: I do not recall any case where we got so far as to lift the tracks and completely abandon it where we restored the service. I do not recall that.

Mr. PUGH: Has there been any trend at all on any number of lines where, for instance, you reduced passenger traffic and then you found you had to put more trains on?

Mr. GORDON: No. You see, you must remember another factor in connection with abandonment, that among other things we have to show that there is alternate service. The board is insistent on our being able to demonstrate that the public convenience and necessity will be served—that is the phrase they use definitely; that if the train service is abandoned there should be a sufficient alternate service in the form of a high class highway with bus service or truck service available to look after the community.

Mr. RIDEOUT: I want to tell a little story that may help the situation a bit. The railway today is in some cases used as an umbrella—we use it when it is raining, and when it is not raining we stand at the corner. I recall being in Halifax when there was a strike on in New York and there were six trains that were to leave Halifax for New York. The first five were all right but the sixth one was annulled. The chief dispatcher came down and said, we are going to annul the last train. It was quite evident that that train was going to be annulled because airplanes were hopping back and forth all day long. However, the equipment was there, the locomotive was there, and so on,

all at the expense of the railway, I assume. That is one of the things that the railway is up against. If we can provide that for some of those steamship lines, surely we can maintain and pay the costs on some of these other branch lines.

The CHAIRMAN: As a matter of course it is government policy that if we ever wanted to establish a service it would take a lot more than the Board of Transport Commissioners to decide where the limit would go, whether you would pave a road for two or three farmers who sent out half a dozen hogs. The idea may have intriguing interest, as Mr. Pugh said, but it would have to be a matter of government policy, and the government would have to convince the taxpayers that for over-all benefit they should subsidize the railroad that much more and the deficit would still be greater. I do not know where it would end.

Mr. SMITH (*Simcoe North*): Assume that action is taken by the government, as Mr. Rideout suggested, would not the government have to apply roughly the same test as to the feasibility and necessity of the service as is now applied by the Board of Transport Commissioners?

The CHAIRMAN: Mr. Rideout means it would be extending it further for service and there would have to be a line drawn some place.

Mr. ADDISON: I apologize for not being here this morning. I got within 700 feet and had to turn back. I was going by plane.

The CHAIRMAN: You should have taken the railway.

Mr. GORDON: On this very point, one of the things I would like to be able to do is to find these people who only use the railway as a standby and charge them ten times the fare every time they do it. That would help us in our passenger problem!

The CHAIRMAN: Even at that he travels free on the railroad.

Mr. ADDISON: You spoke about commuter services this morning and my own constituency of York North is directly affected. We are delighted to have the new hump yard for Toronto in our constituency, but now comes the other part of the argument, that the people in my area are asking for a commuter service between the northern part of our area down into Union station. This principally affects the towns of Newmarket, Aurora and Richmond Hill. There was some discussion as late as last night and I was talking to some people in Aurora about it. There was some discussion when the hump yard went in as to whether this would make it more feasible to operate a commuter train in this area. I have talked to the planning director of the city of Toronto and the planning director of metropolitan Toronto, municipal officials and other officials of the three towns I mentioned. I would like to know in what direction do I now proceed in order to try to obtain some form of commuter service between this area and the city of Toronto.

Mr. SMITH (*Simcoe North*): Sell some season tickets.

Mr. GORDON: I can easily answer that. I have said on more than one occasion that with the completion of the hump yard—which is still a couple of years away, of course—and with the completion of the access lines, we would expect that railway lines leading into Toronto, which are now heavily congested and which could not handle the commuter service, may be sufficiently relieved that we might be able in some instances to develop a commuter service. We know however that a commuter service of that type cannot be operated at a profit; that we cannot even recover our costs. Therefore, it would be a losing proposition. Nevertheless, we are perfectly willing to examine any proposals that may be made by the authorities of the area in question as to whether they would be willing to put up a subsidy payment, or some sort of payment,

call it what you will, for the purpose of getting that service established. Now, the problem is to get these various areas together to submit a proposition to us on a business basis as to what and how the commuter line would be run.

Mr. ADDISON: Would you suggest coordinating these officials?

Mr. GORDON: It is really part of the metropolitan problem. How do you get agreement reached in regard to the many things of interest between these different areas where we have a common interest in roads? The metropolitan area has jurisdiction over a certain area out and beyond Toronto. They might be the people to spark it. I do not know, but I think that all you can do is to try one after another until you get someone sufficiently interested to co-ordinate it.

Mr. ADDISON: Is there anyone in the C.N.R. system—because I am talking about the C.N.R. tracks running up and down Yonge street—who would be able to advise me?

Mr. GORDON: You could talk to our vice president in Toronto, Mr. Wynne.

Mr. FISHER: I would like to say to those who love Toronto that there is somebody who has already been vigilant on this committee with regard to this problem.

Mr. ADDISON: There has been a great deal of talk but very little action. There are 40,000 people who live on Yonge street. It would be a public convenience.

Mr. GORDON: In the talks we have had—and they have been casual and sketchy—I have already detected this feeling, and this is part of the problem you will have to solve and which I cannot, that the city of Toronto authorities immediately say: why should the city of Toronto pay any part of this cost in order to bring people 40 or 50 miles outside the city. They are not paying us taxes, they are not property owners in Toronto, they come into Toronto to work and take wages out of Toronto, they buy property outside and spend money outside, why should the city of Toronto assume that cost? You keep on putting it back to see who is going to do it and whether you can get a partnership effort in that respect.

Mr. ADDISON: How do you determine the cost? This seems to be the stumbling block at the present time.

Mr. GORDON: Let us know the kind of service you want, and we will give you an estimate of it.

Mr. BEAULE: May I ask, Mr. Gordon, if it is the intention of the C.N.R. to re-establish the service from Quebec to Chicoutimi? This matter was brought up by the people of my own constituency who now have to pay more for the same service, because instead of going directly from Quebec to Chicoutimi, which is 57 miles, they have to take the train from Quebec through Hervey and Rivière-à-Pierre to reach Chicoutimi which is 105 miles away.

Mr. GORDON: I am not quite familiar with this particular one. I would be willing to re-examine this if you gave me the particulars. Generally speaking, if we abandoned the service only last fall, I can personally assure you that we would not be thinking of re-establishing it now. If you have some new factors you would like to bring to our attention, I wish you would let me know.

Mr. BEAULE: The passengers pay the same rate, or maybe more, for a ticket from Chicoutimi to Montreal as from Chicoutimi to Quebec.

Mr. GORDON: Any abandonment of service will create hardship.

Mr. BEAULE: And they have not got the service.

Mr. GORDON: Would you let me have the details?

The CHAIRMAN: Mr. Lamoureux, I cut you off before the noon recess. Have you a question to ask?

Mr. LAMOUREUX: I asked my question and got a reply.

Mr. CARTER: I have one or two questions before we leave passenger service. First, I want to make sure I understood what Mr. Gordon said this morning when we were talking about this curtailment. If I understood him correctly, this was for the winter months. Can he say if and when it will be restored in full or in part?

Mr. GORDON: Again you are asking me to make commitments for the future, which I do not like doing. At the moment the decision is made for the winter season only. The winter season reduction for Newfoundland—what is the timing, Mr. Demcoe?

Mr. DEMCOE: The plan at the present time is that the service will be on a tri-weekly basis until next spring. This will be the end of June, and from that time through July and August it will be on a six-day basis until after labour day; then it will go back, in all probability, to a tri-weekly service.

Mr. CARTER: That is July, August and September. In October it will go back.

I want to go a little further on this new ferry terminal for the east coast in Newfoundland. The minister said yesterday—

Mr. SMITH (*Simcoe North*): Are we not getting ahead of ourselves?

Mr. CARTER: This is on passenger service. I am not interested so much in the ship part of it as in the terminal part. The minister said that the Canadian maritime commission would carry out an investigation and make a recommendation to the government with respect to where that terminal would be located. First, I would like to ask Mr. Gordon if he has been kept advised of these investigations, and of the possible site that might be selected for this terminal?

Mr. GORDON: You ask if we have been kept advised?

Mr. CARTER: Yes.

Mr. GORDON: No, not to my knowledge. It has been in the hands of the Department of Transport. Nothing official has come to our attention. I do not know where it stands.

Mr. CARTER: I think the point that everybody is interested in is that it is going to be—this is a rumour and only a rumour—at Argentia, and there are no terminal services there now, no restaurant facilities, no waiting rooms, or anything like that. All that sort of thing would have to be supplied.

Mr. GORDON: That is entirely a matter for the minister. I could not make any comment on it. I think there was a reference to it in the throne speech.

Mr. CARTER: Yes.

Mr. GORDON: But it is a matter of government policy and government decision.

Mr. CARTER: They will put it there without consulting you at all?

Mr. GORDON: I would not say that. They may consult anybody; all I can say is that at the present stage of consultation, it has not reached anything specifically as to where the location may be.

Mr. CARTER: You have not been asked as to what facilities would be required and whether or not a certain site would be suitable?

Mr. GORDON: Well, we may have had discussions about it; we have had engineering discussions, yet; we have been asked for various technical data merely on a request basis, for information and we have supplied it; but we have carefully kept out of any discussion as to policy.

Mr. CARTER: My next question has to do with the train schedule coming into Montreal from the maritimes. The train gets in there at 7.30, and you cannot make a connecting train to Ottawa until 9.30. Is there any special reason for it? I understand the Canadian Pacific supplies a better connection. Apparently, you can go in on the Canadian National and switch over to the Canadian Pacific and thereby get a much better service.

Mr. GORDON: All those connections are very carefully worked out. It would be most convenient for other connecting trains. Have you any particular explanation, Mr. Demcoe?

Mr. DEMCOE: No; that is approximately the time that the general public wishes to leave Montreal for Ottawa. I think the connections from the east and also from the south are taken into consideration. That is the only connecting train to serve people travelling from the city. That is the best time for it to leave and for it to arrive at Ottawa.

Mr. CARTER: The rebuttal to Mr. Demcoe's argument is that the Canadian Pacific find a different hour to be better.

Mr. GORDON: No. They have different connections. The point is that in any of our train schedules the selection of times of departure and connections and so on is arrived at as a result of very careful study by our Passenger Department and sales force. They pick those times after making what they call a market research, an appraisal as to what will suit the largest majority of people who want to use that train.

Mr. CARTER: But that train only goes to Ottawa.

Mr. GORDON: It may not suit you; but from our observation and study we have decided that the time of train departure suits the large majority of people.

Mr. CARTER: You think they would gain by picking up more people for the city?

Mr. GORDON: Naturally, they would operate after such a study had been made, yes.

Mr. FISHER: I would like to raise a question which was brought to my attention by the members of parliament for Timmins, Timiskaming and Cochrane North; it concerns the changes recently taking place in the time schedule, and particularly related to trains numbers 3 and 4, and the inconvenience that seems to have resulted in making connections with the Ontario Northland Railway out of North Bay. The comments of these gentlemen on the matter are so strong that I hesitated to bring them before the committee in those terms, but I would like to get an explanation as to why the Canadian National Railways have found it necessary to make these changes and leave people travelling on the Canadian National trains with a longer lay-over, which they now have to endure, in travelling eastwards out of North Bay, or westward to North Bay and heading north into the Ontario Northland territory.

Mr. GORDON: Your question would call for a review of all the considerations which went into the re-scheduling of those trains. I do not feel I could deal with the matter off-hand without reviewing our files and consulting the officers who made the recommendations. Perhaps Mr. Demcoe could cover it in part. This is not just an isolated thing; it has to do with the re-scheduling of those trains right from the coast to Montreal.

Mr. FISHER: They asked me specifically about it.

Mr. DEMCOE: Train number 3 operating from Montreal to Saskatoon is approximately of the same class as the one which operated formerly, except that it is a little bit later out of Montreal. The time of train number 4 has been scheduled to provide a better connection between Edmonton, Saskatoon,

and Winnipeg. That train would not get into Montreal until 9.30 or 10.00 o'clock. Therefore, there was a feeling that most of the stuff would not be delivered until the next morning, as it was not making a connection except for the trains going east which left in the evening. Therefore, we could give them a later leaving time out of Saskatoon and out of Winnipeg to arrive at Montreal in the afternoon. This made a poorer connection from the north country. Therefore the sleeper was cut out because very few people were using it between here and the Noranda territory.

Mr. FISHER: In other words, the express service from the west dictated the change.

Mr. DEMCOE: The mail and express.

Mr. FISHER: Is this being done on a trial basis, on this time card?

Mr. DEMCOE: That is correct.

Mr. FISHER: And you may revise it?

Mr. DEMCOE: Would it be in their interests to make a revision?

Mr. GORDON: I do remember the details now. We had to take a decision to eliminate the sleeping car. The information I recall that was given was that it was very little patronized indeed. But I would like to hear from those people directly as to what their views are, and to discuss with them what our own records are in terms of the number of people being inconvenienced. I would be glad to know about it.

Mr. FISHER: I have one other question. It has to do with your Supercontinental, the time differential from Toronto to Capreol, between the north and south runs, and the differential involved on the north run, which is a little bit over one hour shorter.

Mr. DEMCOE: We probably have a little bit—I mean there was some extra time we had here in Ottawa; so we hold the train in Ottawa to get a better leaving time. That is 4:30, to arrive at Montreal at 6:40. That train is here for about 40 minutes actually, and that is the real reason. It was to make a good connection out of Ottawa and provide a faster service between Ottawa and Montreal at that particular time of day. Then, we have another train running between here and Montreal which does work along the road, namely, express, and which stops at a number of stations, and it takes much longer.

Mr. FISHER: Is it because of the connection at Sudbury—because there is a train out of Capreol to Toronto?

Mr. DEMCOE: But it is broken up there; at Capreol we break the train up, when one section goes to Montreal and the other section goes into Toronto. The same thing happens on number 1; there is one section out of Montreal to Capreol, and train number 51 runs from Toronto to Capreol, and the two are combined there to form the Supercontinental to the west coast.

Mr. FISHER: I have an answer here from the Minister of Transport, and it reads as follows:

It is, therefore, proposed to discontinue trains 3 and 4 west of Saskatoon. The Saskatoon-Edmonton overnight sleeping car will continue on the connecting merchandise train, but there will be no coach accommodation west of Saskatoon.

Mr. DEMCOE: That is correct.

Mr. FISHER: What response or what criticism or complaint have you had arising out of this?

Mr. DEMCOE: None whatsoever.

Mr. FISHER: None from the communities involved?

Mr. DEMCOE: No.

Mr. FISHER: I also had a question brought to my attention that suggested that your changes in these two trains, brought about in not operating west of Edmonton, will cause inconvenience in the city of Westminster and in that area up the valley where formerly, according to the information I had provided, a considerable amount of service had been given. Have you received any complaints from that area?

Mr. DEMCOE: Our passenger trains west of Edmonton are the Supercontinental trains 1 and 2; that is the only passenger service between Edmonton and Vancouver.

Mr. FISHER: What about the fact that your No. 3 and 4 trains are off? Are the other trains that you have introduced carrying express and freight—are they meeting the requirements of shippers in the Westminster area which was formerly met by trains 3 and 4?

Mr. DEMCOE: Yes, we have a train which handles mail, express, piggy back, and L.C.L. traffic which operates on schedule and connects with No. 3 out of Edmonton, and as far as I am aware up to the present time it is maintaining the schedule which was set up.

Mr. FISHER: Will you also be reviewing it?

Mr. DEMCOE: Yes.

Mr. FISHER: Is it your intention next spring to go back to the summer schedule and reinstate trains No. 3 and 4 from Edmonton westward?

Mr. DEMCOE: We usually have our meeting in December or January to contemplate what we shall be doing next spring.

Mr. FISHER: What discussion have you had with the Canadian Pacific with regard to the transcontinental train reduction in service which has been put into effect?

Mr. DEMCOE: I am not aware of any discussion in regard to our transcontinental train service that we put on this fall.

Mr. GORDON: Not in connection with these changes, no. But we have had some general discussions, to which I referred this morning.

Mr. FISHER: You are aware that the Canadian Pacific Railway from the east into Winnipeg was equivalent to your trains 3 and 4, but that it is providing a more extensive service, that is in terms of cost and cars.

Mr. DEMCOE: They run through a territory where more people live and use the service. But our railroad runs through a more sparsely populated territory. Therefore, there are not as many people who use the train service.

Mr. FISHER: I would like to ask Mr. Gordon a question. Is the Supercontinental a money making train?

Mr. GORDON: If you take it overall, I would think probably it is. But I do not have the figures in my mind.

Mr. DEMCOE: There are various seasons. During the summertime—during June, July, August, and September, it is a good paying train. But during this time of year, I do not think it is making its full cost.

Mr. FISHER: I want to ask a question which the president has brought up many times in the hearings concerning the MacPherson commission suggesting that railways should not continue passenger train service which is not remunerative, and that the public should pay the balance. I just want to know what the Canadian National Railways' thinking is on this question, particularly of the transcontinental train where, during a certain season, you have a money-maker, and in others you do not have. Is it your reading of the MacPherson commission report that in the seasons of the year when you cannot make money on these trains the public service factor comes into play.

Mr. GORDON: No. I think I would take it on the total of the yearly operations. On the other hand, in respect of the question we are now discussing, we would continue to feel we have the duty and right to reduce the service in the off-peak months as we do in the winter time and provide it only on the basis of the traffic that is offered. If we were expected to run a full scale service during the winter months, and it is not necessary, we would expect to recover that cost somewhere.

Mr. BENEDICKSON: Is that your thinking with regard to the 50 per cent reduction in service in your passenger plan including the lakehead and Winnipeg on the south route—Atikokan-Fort Frances.

Mr. GORDON: I did not follow the question.

Mr. DEMCOE: Actually it will depend on the volume of business that we can expect during the summer months in that particular area. If it requires a six day service, there will be a six day service; but if the service does not require it, I presume the western region will continue to operate on the tri-weekly basis it is now running.

Mr. BENEDICKSON: Mr. Demcoe knows that, through a very important area there, there is no highway service or no competitive service.

Mr. DEMCOE: Through one part.

Mr. BENEDICKSON: Does the MacPherson report contemplate that you would have an obligation there in the absence of a highway route?

Mr. DEMCOE: That all depends on how much service we would be required to provide to that particular area, whether it is once a week, twice a week, or seven days a week. It would depend on the demand.

Mr. FAIRWEATHER: I wanted to ask a question.

Mr. FISHER: I do not want to intercept Mr. Fairweather, but I would like to finish this questioning in respect of trains 3 and 4.

The CHAIRMAN: You said you had only one question a while ago.

Mr. FISHER: The problem with relation to 3 and 4 I think is one in respect of which most members of parliament who have any part of this line running through their territory have been bombarded with telegrams, letters and complaints, particularly from employee organizations with respect to the reduction of service. I brought this up before and I would like to follow it up again so that I can provide these persons who are making the protest with the record. Does the railway enter into discussions with their employee organizations preliminary to such reductions in service?

Mr. GORDON: My understanding is yes, they are all informed what the reduction may be, but we do not enter into a discussion with our employees as to whether or not the service is justified. That is a matter of managerial judgment. When we reduce the service on a winter basis, it is our decision as to what the traffic will support; but when we have made that decision, and certainly when the scheduling of trains is affected, we do discuss that with our employees and they know what to expect.

Mr. FISHER: Can we assume in connection with these particular changes which took place on October 28, that all of the unions whose employees would be affected by the changes were informed well before the changes took place?

Mr. GORDON: By the local officials, yes.

Mr. FISHER: Have you any alternative to suggest, Mr. Gordon, to representation by these local organizations?

Mr. GORDON: No. I think there is a general principle raised there which it has always seemed to me needs to be explained. I will explain it as kindly as possible. It is this: it must be understood that trains are not basically run

for the benefit of the employees. Trains are run basically for the purpose of giving service to the public. As I said this morning, I am anxious and willing to devote our sales efforts as much as possible to maximize the carrying of people on our passenger trains. If we can drum up the traffic, trains will be run; but when the traffic is not there and people will not patronize our trains, then the duty of management is to reduce the service. We cannot take into account the fact that that will mean a loss of employment, because, as I said, it would be foolish simply to run a train in order to have a crew on it. I think any of the union members will recognize that. I have every sympathy with the individual employees who lose their jobs under that adjustment and who feel they would rather see the train run than not run so long as they get their wages.

Mr. FISHER: Another member of parliament, the member for Skeena, asked me to ask what response the Canadian National Railways is giving to protests coming out of Smithers, B.C., in relation to the changes which took effect and the particular complaints they made about it.

Mr. GORDON: The vice president who is located at Edmonton, Mr. Graham, —the vice president of our mountain region, has been closely in touch with these complaints and is dealing with them direct. He has met with various boards of trade and has explained the reasons for the changes as part of his regular job.

Mr. BEAULE: Is it the intention of the C.N.R. to extend the new system of tariff which you have between Montreal and Halifax?

Mr. GORDON: I dealt with that this morning in detail. I can answer it briefly. This is what is referred to as the Red, White and Blue Fare. It is still on an experimental basis. If we find the experiment is satisfactory, we will extend the service to other parts of Canada, in stages, where we think it might work out.

Mr. BEAULE: What does it look like now?

Mr. GORDON: Right now it is quite encouraging, but as I said this morning, we need some time and certainly through the four seasons of the year, to determine whether or not the public will stay with us. Very often the public are curious about a service and will patronize it in the beginning, and then lose interest in it. We are very encouraged by the public response at the moment. The Passenger Sales Department is excited about it and think we have something. It has been a very big morale builder for our employees and they are all very keen on it.

Mr. PASCOE: Mr. Chairman, I think we have covered this section pretty thoroughly. There has been, however, one question which has not been referred to directly; that is this plan of all-inclusive fares. I wonder, Mr. Gordon, if it has been in effect long enough that you can comment as to whether or not it is having any good result in stimulating passenger traffic and could it be extended further?

Mr. GORDON: Our Sales Department is headed by a very, very bright young man who is full of enthusiasm for his job and who has brought out all sorts of recommendations which he continues to bring forward. The incentive plan has worked reasonably well, but it is always difficult for us to determine whether we would have had this traffic anyway, or whether it has encouraged people to come along. I can tell you, however, our Passenger Sales Department people do feel that this has had a distinct appeal in the matter of getting volume traffic on our trains.

Mr. BENIDICKSON: I think you have been trying very hard on this pilot plan in respect of incentive fares, having regard to the sales between Montreal and the Maritimes. I think I have read that you said if this was successful you would

do something, perhaps, on that area of dense traffic between Montreal and Toronto, and perhaps you would do it in the west. I am giving you credit for trying to do something that is glamorous in respect of this incentive plan, the family plan and the reduced rates. I would like you to tell me whether you can do this without association with your competitors. Can you do it on your own initiative?

Mr. GORDON: Yes. Many of the innovations we have introduced have been initiated by our own Passenger Sales Department. There have been a great number of incentive plans such as the group discount, and the all-inclusive fares. We have also had various types of zone fares. We have substantially improved the ticketing procedures whereby we reduce the complexity of the tickets. We have had many different kinds of ideas, including sales of tickets by mail, for example, and things of that kind, mostly along the line of advertising gimmicks, and such things, in order to do our utmost to encourage people to travel by train. None of them can be pointed to as being a specific success, except over a period of time. We just have to watch them to see what will develop. We have other advertising gimmicks, including the "Cheerio" travel certificates. I do not know whether or not you have heard of that. We managed to get a million boxes of Cheerio on sale each containing a dollar certificate of rail travel. This is in co-operation with the manufacturer of this Cheerio cereal. That was our own idea. We are prepared to try anything.

Mr. BENIDICKSON: Can you do that without appealing to the Board of Transport Commissioners?

Mr. GORDON: Oh yes. We do not have to ask them.

Mr. BENIDICKSON: On that Maritime set-up, did you see a noticeable increase in the use of your facilities?

Mr. GORDON: Yes; particularly in the off-season period.

Mr. BENIDICKSON: Good. I understand, in connection with the appeal for abandonment of the passenger service between, say, Calgary and Saskatoon, you indicated to the Board that you tried hard with incentive arrangements.

Mr. GORDON: Yes.

Mr. BENIDICKSON: And in other ways, but that it did not really encourage you to keep up the service you had hitherto.

Mr. GORDON: Yes. Some of these things have not worked out well. Our Passenger Sales Department is in charge of Pierre Delagrave, a young French Canadian, who has done very well in the railway service. He has a lot of good ideas and he has been given very rapid promotion because of the fact that he has demonstrated his ability. We are very pleased to record the fact that he has put new pep in the whole sales procedure.

Mr. BENIDICKSON: I am not going to be dragged into a discussion about French Canadians. I am concerned with incentive fares for increasing passenger patronage. Do you think in the Maritime area that the reduction in fares has given you some satisfaction?

Mr. GORDON: Yes.

Mr. BENIDICKSON: I think when you made your press release you indicated you would like to try that in certain other areas.

Mr. GORDON: Yes.

Mr. BENIDICKSON: I think one of the areas mentioned was that area of dense concentration between Montreal and Toronto. Can you initiate this without the C.P.R. doing the same thing?

Mr. GORDON: In the Montreal-Toronto area?

Mr. BENIDICKSON: Yes.

Mr. GORDON: No. In that case we would need their co-operation because of the fact that it is a pool service.

Mr. FAIRWEATHER: I was going to ask the name of the bright young man in charge of the Sales Department, but I think you have given us that.

Mr. GORDON: Yes, Pierre Delagrave. He is in western Canada now and has just finished making a round of speeches regarding the new innovations introduced in the last few years.

Mr. ROBINSON: Are there any commuter services being run at the present time that are not paying their way?

Mr. GORDON: Do you mean not paying its way?

Mr. ROBINSON: Yes.

Mr. GORDON: There are none that are paying their way.

The CHAIRMAN: Mr. Robinson, that has been placed on the record on two or three occasions. None are paying their way.

Mr. CARTER: Could I ask Mr. Gordon—

The CHAIRMAN: Mr. Robinson, that has been placed on the record on two or three occasions. None are paying their way.

Mr. CARTER: Could I ask Mr. Gordon—

The CHAIRMAN: Just a moment; Mr. Robinson is not through with his questions.

Mr. GORDON: Did I answer your questions, Mr. Robinson?

Mr. ROBINSON: Yes, that answers my query.

Mr. PASCOE: In connection with incentive plans could you comment on the success of your "GO NOW, PAY LATER PLAN".

Mr. GORDON: Well, that is becoming a way of life now-a-days and we just have to keep up with the Joneses in that respect. We make it available and we have had a reasonably good response. As well, our record in regard to collections has been quite good.

Mr. PASCOE: I was going to ask about that.

Mr. BENIDICKSON: The issue of credit certificates by the C.N.R. has been received very well because you are a large company and have a widespread national interest.

Mr. GORDON: Yes.

Mr. BENIDICKSON: Does this credit card have a widespread circulation?

Mr. GORDON: It is a general credit card which is issued to selected types.

Mr. BENIDICKSON: And T.C.A. is affiliated in this?

Mr. GORDON: Yes. We have a C.N.-T.C.A. credit card, which is a joint operation.

Mr. BENIDICKSON: Have you found that this has caused you very much embarrassment in connection with non-payments?

Mr. GORDON: No; we have a very good record in that connection.

Mr. FISHER: One thing I do have a hard time following, Mr. Gordon, is your consolidated income statement with regard to passenger service this year and last year. In the report filed with the committee last year the figure for passenger service revenue in 1960 was \$48,208,561; in 1959 it was \$49,954,770, and in your consolidated income statement this year the 1960 passenger revenue is given at page 25 as being \$38,323,134. Do I take it this is a lumping of sleeping and dining cars?

Mr. GORDON: Yes. If you add it up you will come to the same total as in the 1960 report. It is the same point I raised yesterday in regard to freight. But, if you add passenger in the amount of \$38,323,134 and sleeping and

dining car in the amount of \$9,885,000 it should come out the same. Those two items together equal the amount shown in the 1960 report to which you referred.

Mr. FISHER: In so far as your statement at the front is concerned, in connection with the revenue dollar, do we take it that the 6.1 from passenger service does include the sleeping and dining car?

Mr. GORDON: I think it would. Could you confirm that for me.

Mr. TOOLE: Yes, it does.

Mr. FISHER: I thought this was a fairly small break downward, from 6.9 last year to 6.1, and I wondered if there might have been a reason for it.

Mr. TOOLE: 1961 is 8.6, I believe.

Mr. FISHER: No, 6.1.

Mr. TOOLE: In 1960—

Mr. VAUGHAN: If I might interrupt, the other report was 6.9.

Mr. TOOLE: Yes.

Mr. FISHER: I note, in checking back on former reports that this percentage—

Mr. TOOLE: Again, if I may interrupt, last year, in 1960 the total was related to the revenue dollar and this year it is related to the expense dollar. The basis for the compilation is different.

Mr. BENEDICKSON: May I make one other observation, Mr. Chairman. Although I am entirely in sympathy with the over-all problem of the C.N.R., and although we should not criticize the management too much in the day-to-day decisions which they make, on the other hand all the capital for this particular railway comes from the taxpayers whom we represent here in this committee.

In connection with passenger service I have heard from some of your employees that management of the C.N.R. really has decided that there is no future in providing too much service on the C.N.R., as it can be provided perhaps by its wholly owned subsidiary, T.C.A. and, in consequence, you are not sympathetic perhaps or, if I may say so, even alert to the passenger service that is available in areas, particularly where airports would not at the moment be available. Most of our airports require public assistance, as in the case of the C.N.R.

Now, a personal experience. Last month I was at the lakehead. I was on their number two train. This train is not their first class train but a second class train which they call the Dominion. They could not offer me any Pullman space going from the lakehead to Kenora or to Winnipeg. I decided to defer my trip to the next day because I did have some business I wanted to conduct. On the next day the C.P.R. could only offer me an upper, indicating to me that there is some traffic between the lakehead and Kenora and Winnipeg. As I say, this was on their so-called Dominion train.

Under those circumstances, Mr. Gordon, should we say that "everybody travels by air; the hell with it, we will give up this passenger service." That has been my experience, having been a visitor in October to Fort William and Port Arthur. As I say, I could not get out that day on the C.N.R. to Winnipeg and sleep, and then the next day I was a bit late. I appealed about noon hour for accommodation and all they could offer me was an upper.

Now, Mr. Chairman, what I have said does indicate to me that people actually do travel by rail, say, between the lakehead and Dryden, Kenora and Winnipeg. As I said, your employees have told me that you just do not want this kind of traffic.

Mr. GORDON: Any employee who tells you that is completely and totally wrong. We have made public statements again and again that we are anxious to promote our passenger service to the maximum possible extent, and we already have been discussing all sorts of innovations, gimmicks and so on to attract the public. We certainly would not be making efforts of that kind if we had formed a general policy as you suggest.

If you would kindly refer these employees to me I would like to have a personal talk with them.

Mr. BENIDICKSON: I think some of the employees would have fears.

The CHAIRMAN: Do you have a question Mr. Carter?

Mr. CARTER: Mr. Gordon, do you have any yardstick, formula or criteria which you use when you have to make a decision as to whether or not a non-profitable service should be discontinued or maintained as a public service?

Mr. GORDON: Yes, obviously. I have mentioned that several times already. We analyze the particular service in terms of its cost and in terms of its income, and it is as simple as that.

Mr. CARTER: I know that, but just what level of losses are you prepared to accept?

Mr. GORDON: Basically, we should not be accepting any losses; however, we will tolerate a reasonable loss before we actually advance abandonment proceedings. It is not so much the immediate loss but the trend in which we are interested. If we can see no improvement in the trend and if it looks pessimistic, that is when we make up our minds that it is time to get out of that particular run.

The CHAIRMAN: Would you proceed, Mr. Robinson?

Mr. ROBINSON: Mr. Chairman, I have not a question to ask at this time; I would like to exercise my privilege as a member of this committee and make a comment.

Referring back to the answer Mr. Gordon expressed about the commuter trains not paying, I would like to register the comment that I do not think it is fair that there are lines cut off which are not paying their way into the city, while we have a decentralization problem.

Mr. FISHER: I would like to comment in connection with Mr. Benidickson's remarks to the effect that we should encourage the Canadian National Railway to introduce passenger services in many of these areas where the public is not responding, and I cannot with any fairness advocate keeping on some of the passenger services including parts of my own territory due to the kind of traffic they have been getting. The response has been terrible. I have had occasion to be on C.N.R. passenger trains in my own area and have noted only three or four people occupying several coaches—and I would doubt whether they were all revenue passengers. I know I was not. In this situation I think we have to be perhaps more sympathetic than we have been.

The CHAIRMAN: Could we pass on to telecommunications?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: In connection with telecommunications, we have been over a lot of this. We have been given a good deal of latitude to date. I do hope we can get rolling along and get through some of these items which we have discussed in part in advance. However, I do not want to stop any pertinent questions.

Mr. FISHER: I received a letter from one of your assistants, Mr. Gordon, which indicated there was a split over the responsibility for the construction of this new microwave system—and I am referring to a regional or area split

—and I wondered whether you could tell me just how the construction development is going to be split. Which part is the C.P.R. responsible for?

Mr. GORDON: From Melville west is the responsibility of the C.N.R., and from Melville east is the C.P.R.'s responsibility.

Mr. FISHER: And in so far as the capital provision which will be necessary to develop this line is concerned, is it going to be on the same basis?

Mr. GORDON: It will be on a 50-50 basis.

Mr. FISHER: Can I ask you just what vote or under what authority, in so far as parliament is concerned, will the money be coming from which will go into this?

Mr. GORDON: Yes. It is in our capital budget.

Mr. FISHER: Is there any likelihood that the cost of this installation, estimated at \$36 million, may be less than the amount you projected?

Mr. GORDON: It is too early to say. However, we think our estimate is a very good one. I was inquiring about the progress and I do think we will come within it. But, as I say, it is too early to say just what it will be in view of technical problems and so on which we will be encountering.

Mr. FISHER: Are you already, in a sense, leasing or preparing to rent some of the facilities, some of the lines?

Mr. GORDON: In respect of the microwave, the main arrangement that we have been able to make is that the C.O.T.C. will use our facilities, but it is too early yet to undertake any definite contracts until we get further ahead.

Mr. FISHER: Have you any assurance of income from the government through the defence authorities in respect of any portion of the system which they may require or for which they may be willing to pay?

Mr. GORDON: We have no definite assurance, no, but we are quite confident, nevertheless, that when the system is complete it will be of a quality that will readily attract business.

Mr. FISHER: Do you anticipate that it will be necessary to go to the board of transport commissioners in connection with tariffs?

Mr. GORDON: That is a matter which is in doubt at the moment. There is a difference of opinion as to whether or not we need board of transport authority in respect of tariffs. At the moment we are not going there for authority but it may well be settled on the basis that we will go anyway to have a tariff schedule made official, so to speak, or whatever you wish to call it.

Mr. FISHER: Have you been approached by any major organization, and I am thinking, for example, of the Famous Players Corporation, with a view to using these facilities?

Mr. GORDON: Not specifically, no, because it is too early in the game as yet to do this type of thing.

Mr. FISHER: I see.

Mr. GORDON: I should say that we are not just going into this thing in the dark. The C.P.R. and ourselves have made very careful market research studies as to the future business that will be available when we have this facility built. We have made inquiries on that line and we have no doubt at all about our ability to secure business. The situation has not reached the negotiating of formal contracts as yet, because it is too early in the game.

Mr. FISHER: I should like to refer to a matter relating to this subject in order to get some information. There is developing from the present microwave set-up that exists, for example in the lakehead area, what I would call a drop-off, affecting the cable television system.

Mr. GORDON: Yes.

Mr. FISHER: I think that is becoming a contentious matter particularly for the Department of Transport as the regulatory body involved in this regard. I wanted to know if there was any anticipation on the part of the C.N.R. and the C.P.R. management group, which is going ahead with this program, that this may be a potential source of revenue?

Mr. GORDON: Yes, I think it could be.

Mr. BENIDICKSON: Mr. Chairman, I take it this is an enterprise to be undertaken by the C.N.R. and the C.P.R.?

Mr. GORDON: That is correct.

Mr. BENIDICKSON: It involves a large amount of capital expenditure somewhere in excess of \$36 millions, and having regard to the public interest and in respect of the Combines Investigation Act, is this a matter of an agreement in restraint of trade? I raise this question because I hear every now and again from different sources down the line, such as the private broadcasting company or the C.B.C., that they cannot provide a T.V. service because the cost is too high. It seems to me that this cost might be unduly affected because of an agreement in restraint of trade on the part of the two railway companies providing this service. I should like to know whether the C.N.R. has looked into this situation, and do you think by reason of your agreement with the C.P.R. in providing this new microwave service you must have something in the nature of a dual control which reduces the competitive factor across the country?

Mr. GORDON: Absolutely not.

Mr. BENIDICKSON: No consumer could compete with that set-up.

Mr. GORDON: There is plenty of competition. You will remember our discussions during the first day of these hearings when reference was made to the fact that the Trans Canada Telephone Association was very anxious indeed to prevent our building of this microwave line. That is direct competition. Furthermore, so far as restraint of trade is concerned, and I am not a lawyer, but I understand that the combines act would not apply to such services.

Mr. FISHER: In respect of this same question, getting back to something I asked earlier relating to television, I assume that the squawk made by Trans Canada Telephone is in relation to the fact that there may be a tariff war in order to gain customers for these two networks. You did mention that there was doubt as to whether you would have to go before the board of transport commissioners in this regard, but do you feel you will be in a competitive position on the basis of lower rates than are now in existence for the present microwave system?

Mr. GORDON: This whole question involves competition. We will certainly go after business, and will certainly be prepared to quote competitive rates so long as we can make money. We are certainly not going to get into a rate war for the purpose of losing money, and I do not feel that the Trans Canada Telephone Company would want to get into that position either. There are two or three things involved in this regard. One has to do with quality of service. At the moment this microwave installation that we are building will have a higher fidelity quality service available than any other in this country. That will give us a competitive advantage, but that will not mean a monopoly because there is plenty of other business available for other lines which does not require the same high quality service. We will be quoting rates in relation to the service rendered.

You understand that this microwave will cover a lot of things. This does not involve just a matter of transmitting television or radio but also transmissions of many types of information and data. We can also use it for the transmission of data of all kinds, involved in data processing, transmission of weather information and so on.

Mr. BENIDICKSON: Will it also serve a useful purpose in respect of stock market quotations?

Mr. GORDON: That of course is another service that we can provide.

Mr. BENIDICKSON: I presume it will also be used in respect of nationally integrated organizations on a rental basis?

Mr. GORDON: Yes, this will be made available on a rental basis to the various stock market facilities.

Mr. FISHER: Is any consideration being given to an eventual hook-up for overseas transmission to a microwave set-up in Europe?

Mr. GORDON: That would follow as a matter of course. I do not mean in that regard, a connection for the transmission of messages that would come from overseas. They would probably come through the C.O.T.C. through their overseas system and then on to this line of communication.

Mr. FISHER: I raised this question because there have been several lobbying groups around Ottawa.

Mr. GORDON: There is no microwave installation overseas at the moment.

Mr. FISHER: I know, but there have been several lobbying groups around Ottawa in the last two or three years in favour of a microwave system across to Europe based on international agreements, and I wondered whether this was part of your projection.

Mr. GORDON: No. At this stage at least I have not received any proposal that we would go beyond land transmission in Canada.

Mr. FISHER: I wanted to ask you some questions in connection with the sharing which you have with the C.P.R. on the television program called Telepol that used to promote the services of the C.N.-C.P. telecommunications. I would really like to know whether you have a copyright, whether the C.N. and the C.P. have a copyright, for this particular program.

Mr. GORDON: Copyright is a difficult term.

Mr. C. A. HARRIS (*Director, Public Relations, Canadian National Railways*): It is a program produced by the Canadian television network. They own the program and we sponsor it. There is no copyright.

Mr. FISHER: The reason I ask is that there has been an American version opened up recently, and I wondered whether through the fact that the whole idea of your program dovetails with your equipment and procedure you obtained the copyright.

Mr. GORDON: I would not think that a thing of that kind could be copyrighted.

Mr. FISHER: Television program ideas are copyrighted.

Mr. HARRIS: In this case the network owns the program, and it is very successful.

Mr. BENIDICKSON: Perhaps in the United States, unless I am mistaken, this thing could get to be so big and so exclusive that under the United States laws it would be considered an anti-social advantage, a combine of this sort. I hope that in this instance it involves some competition, perhaps with the hitherto existing Bell Telephone Company, and that the cost to the public, say for television services or radio services, might go down by competition. What is the prospect? We are concerned about people getting so big, particularly the C.P.R. and the C.N.R. in combination, that the public would not get the benefit of reduced costs. They did not on radio transmission, in my opinion.

Mr. GORDON: The contrary of course is the case, because the cost of radio transmission for the C.B.C. and the cost of these television programs have gone steadily down as we put in these more efficient installations. The microwave itself was a tremendous step in that direction.

The CHAIRMAN: Can we proceed now to hotels?

Mr. CHEVRIER: May I ask one question in connection with hotels?

Mr. GORDON, you have disposed of two of your hotels, perhaps more, because they were not profitable operations. Is it the intention of the C.N.R. to dispose of or sell any of its other hotels?

Mr. GORDON: We have recently been through a very detailed exercise in connection with our policy on our hotels and we gave very specific thought to whether or not it would be wise to sell some of them or to establish whether there was a market for them. We reached the conclusion that it would not be wise and we are going to include in our budget for next year a substantial amount of money for the rehabilitation and modernization of our hotels. A highly stepped up sales effort has been started to make them profitable.

Mr. CHEVRIER: You reached that conclusion, that it would not be advisable to sell, although some of them are not profitable?

Mr. GORDON: They are not too discouraging.

Mr. CHEVRIER: You think that by an expansion program you can make these hotels profitable over the years?

Mr. GORDON: That is our hope and intention in the capital budget that we will be bring forward next year. We have a number of things in hand. It is under discussion and an effort will be made to modernize them, produce the type of service that will be in much better competition with the motels and things of that kind.

Mr. CHEVRIER: What would be the amount of the capital budget?

Mr. GORDON: We are in discussion on it now. It refers to the year 1963.

Mr. BENIDICKSON: Why do you keep the Queen Elizabeth accounts separate from the other hotels? Is it because of this specialty of leasing?

Mr. GORDON: We own the Queen Elizabeth hotel, but its operation comes under an agreement with the Hiltons for management. We have a special agreement in that respect. We do not manage the Queen Elizabeth hotel as such. That is why we keep it separate.

Mr. BENIDICKSON: I refer to the increase in revenue of \$300,000, I think it is.

Mr. GORDON: Yes.

Mr. BENIDICKSON: But you segregate it from all the other hotel holdings. Is there a special reason?

Mr. GORDON: The reason is that we do not manage it.

Mr. BENIDICKSON: What is the over-all capital cost of renting that hotel to the Hiltons?

Mr. GORDON: The investment for last year was \$24,615,000.

Mr. BENIDICKSON: Under this agreement?

Mr. GORDON: The net return is \$1,718,000 under this agreement, but we also have some other payments. The actual return from this hotel management agreement is the \$1,718,000 but through other forms of rental there is about \$1,100,000 more cash which comes into our till.

Mr. PUGH: Where does that cash come from?

Mr. GORDON: Operation of the hotel.

Mr. PUGH: Your rental?

Mr. GORDON: It is the basis of the formula on which we have made this agreement with the Hilton people. The formula is that we start off with a basic rent for the hotel and then we get a share of the net profits. The end

result of that is that the net profit, the figure after depreciation and interest, is \$1,718,000, but in addition to that we have his basic rent which is \$280,000 and other amortizations of nearly \$300,000 from the cash income point of view.

Mr. BENIDICKSON: This would be under depreciation as would be allowed under the Income Tax Act. How do you calculate interest? We were at odds yesterday on interest. The government is presently paying on Canada savings 5.1 per cent for a certain term. Anyone who wants to lend money to the government gets that. What is your interest rate in that respect?

Mr. GORDON: The way this works out is that when we take the cash flow figure that I mentioned in terms of our total investment, we have a cash return for the year 1961 of 11.3 per cent on our investment.

Mr. McDONALD (*Hamilton South*): That is not bad.

Mr. GORDON: It is very good.

Mr. McDONALD (*Hamilton South*): Has the C.N.R. ever negotiated for or have the Hilton people ever wanted any of the other hotels?

Mr. GORDON: Yes.

Mr. McDONALD (*Hamilton South*): Are you considering entering into agreements to do this?

Mr. GORDON: No.

Mr. McDONALD (*Hamilton South*): Even in the light of the fact that if the Hilton syndicate runs the hotel you can derive a profit?

Mr. GORDON: I mentioned in the report on page 14:

An arrangement was made during the year whereby Hilton of Canada Limited was retained in a consulting capacity to advise and assist the management of Canadian National hotels on various phases of hotel operation, sales solicitation and administration. The arrangement will also involve closer coordination of sales activities between the two hotel systems and extension of the solicitation efforts of the world-wide Hilton hotels organization to promote the attraction of convention, group and individual travel to all Canadian National hotels.

It is as a result of a survey and review which our Hilton friends made of our chain of hotels that we came to the conclusion that it was worthwhile to put some capital money into them to bring them up to date, to modernize them, and to try to make them pay. But we are not going to have Hilton act as manager of the hotels.

Mr. CARTER: Has any decision been made with respect to the expansion of the Newfoundland hotel?

Mr. GORDON: No, we have no immediate expansion in mind for the Newfoundland hotel. We have the matter under very active consideration in regard to this capital programme that I mentioned, but we have not reached any decision on it.

Mr. BENIDICKSON: The sum of \$24 million odd constitutes our investment in the Queen Elizabeth hotel. The president says, having regard to all the factors, including depreciation, interest and cost of the money, we are getting 11.2 per cent on that investment.

Mr. GORDON: We are getting 11.3 per cent on the basis of the 1961 results.

Mr. BENIDICKSON: That is based on what you said was the original cost, of about \$24 million.

Mr. GORDON: Yes, that is our total investment in the hotel building, furniture, and everything else.

Mr. BENIDICKSON: I am very glad to hear that. I think that is good!

Mr. GORDON: Make a note for the record that somebody says it is good!

Mr. FISHER: Have you given to the committee in previous years a breakdown of the profit and loss of the various hotels in the system?

Mr. GORDON: Yes, I have.

Mr. FISHER: I wanted to ask you, as a matter of consistency, why have you given a particular breakdown in regard to hotels, while you object very strongly to giving us one in connection with the trucking firms?

Mr. GORDON: I do not know. This is getting into a debating point, it seems to me.

Mr. FISHER: I do not want to get into a debating point.

Mr. GORDON: It seems to me there is no parallel at all. I do not know where to start to make an argument in reply to your question. This looks like trying to mix oil and water, it seems to me.

Mr. FISHER: Hotels are a separate operation, which apparently you have, and I would assume that you would do the same thing for trucking; yet you give us information about the hotels and say that the Macdonald has been making money; nevertheless in reply to trucking questions you said it was privileged and that such information would interfere with competition.

Mr. GORDON: Surely there is no competition to be interfered with by giving individual results of hotels—at least not of a kind that bothers us in this connection.

Mr. FISHER: I cannot follow that argument.

Mr. GORDON: Well, I cannot follow your question, so that makes us even.

Mr. FISHER: Why has occupancy gone down at the hotel Vancouver when I understand that the tourist business has been generally considered to be holding up very well in Vancouver?

Mr. GORDON: The 1962 results are better because of the Seattle Fair. But we have a very unsatisfactory situation there because of the agreement entered into with the Canadian Pacific Railway when that hotel was completed. It is a long and very complex story as these things often are. But we, in the Canadian National Railways, are highly dissatisfied with the terms of the bargain made at that time. There is included in the formal agreement, among many things, that if there is to be any capital money spent on the hotel, then that capital money must be provided by the Canadian National Railways; and it goes on to say that the Canadian Pacific would get a 50-50 share of the improved result which would be derived out of the increased capital expenditures. I am not prepared to go forward with the kind of heavy expenditure which would be needed on the hotel Vancouver. The result is that at the moment the hotel Vancouver is steadily slipping in regard to its position as a prestige hotel.

I have had very earnest discussions with both Mr. Crump and Mr. Sinclair of the Canadian Pacific Railway in an endeavour to reconcile our views on it. The matter is very active right now, but what the outcome of it will be, I do not know at the moment. However unless we can get some form of amendment to the agreement which will give us an incentive to put up a large amount of capital such as is needed for the rehabilitation of that hotel, plus some other factors such as garage space and things of that kind, we in the Canadian National Railways management are determined at present that we will not put up the capital for the benefit of the Canadian Pacific Railway as it stands now.

Mr. FISHER: When was that agreement entered into?

Mr. GORDON: It all goes back to about 1936 or 1938. I think it was finalized in 1938, but bargained for in 1936. I want to be fair to the C.P.R. Remember that part of the agreement was that the Canadian Pacific had to dispose of its hotel which it had there. They got out of the hotel business in Vancouver, and that was part of the agreement, to join in the operation of the new

Vancouver hotel. But all the capital in the Vancouver hotel has been put up by the Canadian National Railways, and the agreement calls for any further capital to be put up also by the Canadian National Railways.

Mr. BENIDICKSON: What about depreciation rates with respect to that capital?

Mr. FISHER: They also share in any losses, of course.

Mr. GORDON: Yes, and there is a very involved formula on it contained in the agreement; but they do share ultimately in the loss, and if the hotel goes out, that will be costly to them, as I have pointed out to them.

Mr. FISHER: My member of parliament informant requested me to ask what the management of the hotel is doing to meet competition for conventions arising from the new hotels in the greater Vancouver area?

Mr. GORDON: That is another point of the thing, namely, that the management is conducted in the form of a joint committee. It is not a satisfactory form of management. Moreover, the manager who is operating the hotel under the direction of the joint committee has not been given any capital with which to make the major changes which would be necessary to attract these conventions. It is a very unsatisfactory situation which we are trying to work out.

Mr. BENIDICKSON: The capital has to come from the Canadian National Railways.

Mr. FISHER: My last question relates to the Toronto area. In the projection which you are making, are you giving any consideration to getting into the hotel business, or capitalizing on the hotel business as you have in the Queen Elizabeth, but in relation to the Hiltons in the Toronto area, and in relation particularly to some of the new developments there?

Mr. GORDON: No, we have no ambition to go into another hotel in Toronto. As it stands now the Canadian Pacific have a large hotel in Toronto while we have a large hotel in Montreal. I would not want to embark upon a race in that respect. We more or less recognize that they have a major hotel in Toronto, while they recognize that we have a major hotel in Montreal, and this is the way it stands now.

We made a survey of Toronto not long ago when we came to the conclusion that the hotel market there is more than saturated.

Mr. LAMOUREUX: What type of resort hotels do you operate?

Mr. GORDON: Only the Jasper Park Lodge.

Mr. LAMOUREUX: Did it show a profit in 1961?

Mr. GORDON: Yes, I think it did. It enjoys a very short season. It only operates from about the middle of June to the middle of September.

Mr. LAMOUREUX: Is my understanding correct that the reason you operate a summer resort hotel is to generate traffic?

Mr. GORDON: That may have been the original reason and is still part of the reason; but the principal reason we operate it today is that we have got it. We spent money on it to replace some of the cabins which had become quite run-down and we are having quite satisfactory results in building up interest for patrons in the Jasper Park venture. I think we will succeed in producing quite a satisfactory show there.

Mr. LAMOUREUX: Are you satisfied that the Jasper Park hotel has generated rail and passenger traffic?

Mr. GORDON: Yes, although not as much as it used to do because, with the advent of better roads through the area, more and more patrons arrive there with their own cars. But there is still a substantial amount of traffic which comes to us by rail.

Mr. LAMOUREUX: Do you keep a record of it?

Mr. GORDON: Yes, we do.

Mr. LAMOUREUX: Would that record show approximately the percentage of guests who come in by automobile?

Mr. GORDON: Yes, but I have not got it here.

Mr. LAMOUREUX: It is not that important.

Mr. PUGH: In respect of the Vancouver hotel, it seems to me there is a situation there which has been developing to the point where something has to be done. It should be done right now. If you let that hotel go six months or another year before you go ahead with your planning, it will continue to go downhill all the time. I would like to know whether there has been any offer to purchase, one from the other, between the two operators, the C.N.R. and the C.P.R.?

Mr. GORDON: Yes. What you said in the beginning sounded as if you might have been listening to me when I was speaking to the C.P.R. We pointed out exactly what you say. This is the difficulty right now between the two managements. In the course of our discussion we have advanced four different options in connection with how this problem might be resolved. I would prefer not to deal with the options now. Both parties are trying to appraise their particular situation to see what conclusion we can reach in order to end this rather foolish situation.

Mr. PUGH: Would the C.N.R. prefer to operate this themselves?

Mr. GORDON: I think it would be preferable for either one of us to operate it individually.

Mr. PUGH: Or own it individually.

Mr. GORDON: Or own it individually. You understand we do own it; but they have a right to share in the operation of it.

Mr. PUGH: My concern actually is not personal in any way; it is only because I am from British Columbia.

Mr. GORDON: Quite. I can assure you that this is a matter of great concern to the management of the C.N.R. right now. It is a matter which has been under very active discussion in an effort to see whether we can reach an accommodation between us.

Mr. PUGH: Would you go so far as to say that you are getting close to a solution?

Mr. GORDON: We now have these four alternatives under very active study and will need in the very near future to decide which way we will do it.

Mr. PUGH: It would seem to me that with the capital outlay in this building that we have more to lose, whatever may have been the basis of the original contract. We have a good deal tied up there and, with changing conditions, if we stay in that Vancouver hotel, we will have to put out a lot more in order to bring it up to date. You mentioned the garage, which is not a small item.

Mr. GORDON: That is probably what the C.P.R. thinks, and they probably think they have the greater leverage in respect of these discussions.

Mr. PUGH: Is it not a fact that the occupancy with regard to room rentals has gone down?

Mr. GORDON: Yes. It has been much better this year. There was quite an upsurge because of the special situation in respect of the Seattle fair.

Mr. PUGH: But aside from that it is not running full?

Mr. GORDON: No. The competition is becoming much more severe.

Mr. PUGH: Have conventions dropped off?

Mr. GORDON: Yes, they have. Incidentally I have the figure in respect of the occupancy.

Mr. FAIRWEATHER: I wonder how long this agreement has to run.

Mr. GORDON: The occupancy figure in 1960 was 66.1 per cent, and in 1961 was 57.3 per cent.

The CHAIRMAN: Mr. Fairweather asked how long this agreement with the C.P.R. has to run.

Mr. GORDON: It has about 19 years to run. It was a 20 year agreement and was subject to an automatic option in favour of the C.P.R. for renewal. It was a one-way option in their favour.

Mr. PASCOE: I have one question with regard to a particular hotel, and Mr. Gordon may answer this question in general terms; it has to do with the Bessborough hotel in Saskatoon. The 1960 report showed that the hotel was operating at a loss. Is the situation improving?

Mr. GORDON: Not very much but we hope we can improve the situation. Our consultants, the Hilton people, have told us there is a potential there if we do a number of things to improve it, such as parking facilities and generally making the hotel a little better than it is now.

Mr. FISHER: In relation to the Jasper situation, has the C.N.R. any opinions relating to the recent report which was prepared in respect of that whole basic area, and the commercial developments within it, including motels and other facilities?

Mr. GORDON: To which report are you referring?

Mr. FISHER: The one prepared for the Minister of Northern Affairs and National Resources.

Mr. GORDON: I do not recall having seen it. Is it recent?

Mr. FISHER: It was tabled in the house about two weeks ago.

Mr. GORDON: It has not come to my attention yet. I will make a note of it and see what it involves.

Mr. FISHER: Has the C.N.R. been aware that within the whole of the Jasper park framework there has been a controversy over the kind of facilities that are available to people using the park.

Mr. GORDON: Oh yes. Remember our facility there is in the general park area and I do not think any other operator would be permitted. We have been allowed in there because we are the Canadian National.

Mr. FISHER: Has the suggestion been made that you should expand your facilities? I do not mean specifically where you are now, but rather expand and get into the motel business.

Mr. GORDON: No. There has been no approach of that kind. We have been improving our facilities at Jasper park, but have no plans to enlarge beyond this.

Mr. BENIDICKSON: In the Fort Garry hotel at Winnipeg the president will recognize that they radically changed their catering arrangements in so far as a new cafeteria is concerned, and so on. I want to compliment them upon their good quality of service there. Has it paid off in so far as the capital investment is concerned.

Mr. GORDON: No. It has been quite disappointing.

Mr. BENIDICKSON: I am sorry, because there is a greatly improved quality.

Mr. GORDON: That was a calculated risk we took and it has not turned out as much as we estimated. However, there are other measures in hand which we hope will be able to improve the hotel. One of the great difficulties is the parking problem.

Mr. BENIDICKSON: The location and the parking.

Mr. GORDON: Yes.

Mr. BENIDICKSON: Now, there has been some discussion in respect of the Chateau Laurier in Ottawa. Is the catering service, so far as the cafeteria and the grill room are concerned a paying proposition?

Mr. GORDON: It has been declining. The cafeteria in particular has been a very active operation indeed; but I was inquiring yesterday as to the figures and I find that it has gone down to almost 50 per cent of what it was by reason of the transfer of government buildings to the outskirts of the city. However, we have plans in that connection to change the style of the cafeteria. That is under study. We also have some ideas in respect of making the cocktail lounge more popular for those people who cannot find their way there. We have other experiments in that regard.

Mr. BENIDICKSON: Have the representations which have been made by parliamentarians in respect of the grill room been sympathetically received?

Mr. GORDON: There have been a lot of fiction stories which have appeared in the Ottawa press which have not been quite out of whole cloth, so far as I know. These stories got far more attention than they deserved. We told Mr. Balcer he need have no fear about the management going off on any crazy ideas of ruining the character of the Chateau Laurier and Mr. Balcer has been good enough to tell me he has every confidence in our judgement in that regard.

The CHAIRMAN: Can we proceed to personnel and labour relations?

Some hon. MEMBERS: Yes.

Mr. BENIDICKSON: To revert for a moment, has not the Grill room, on the whole, been a remunerative operation?

Mr. GORDON: Yes. It varies very considerably.

Mr. CHEVRIER: Mr. Chairman, what time are we going to adjourn?

The CHAIRMAN: I thought perhaps at 5.30?

Mr. CHEVRIER: I think we should endeavour to complete our work tonight.

Mr. BADANAI: Shall we commence at 8 o'clock tonight, Mr. Chairman?

Mr. FISHER: Mr. Chairman, are we ready to proceed on personnel and labour relations.

The CHAIRMAN: Yes, but we were just discussing when we wanted to conclude our meeting this afternoon. I am in the hands of the committee on this. Do you not think that we should carry on to 5.30?

Mr. RIDEOUT: Yes.

Mr. CHAIRMAN: Is it your wish to sit tonight?

Mr. McDONALD (*Hamilton South*): Yes. Let us finish it up today.

The CHAIRMAN: I would hope we would be able to finish tonight, if it is possible. We have had a great deal of latitude in discussing these items. We were on highway services for quite a while last night, and all we have done today is passenger service, telecommunication and hotels. We are about to embark on a discussion of labour relations and personnel at this time, following which we will proceed to "pensions", "other developments", "the outlook". Then there is the financial and statistical statements, as well as the auditor's report to parliament to peruse. We have the capital and operating budget to go through, followed by the annual report of the Securities Trust. That is all to come still.

Mr. CHEVRIER: How about the Canadian National West Indies Steamship Company?

The CHAIRMAN: That won't take long.

Mr. GORDON: No. You can pass that one now.

Mr. McDONALD (*Hamilton South*): Can we not proceed and finish it tonight?

The CHAIRMAN: That is what I would like to see. If it is satisfactory we will remain here another 15 minutes to 5.30, and then meet at 8 o'clock tonight.

Some Hon. MEMBERS: Agreed.

Mr. FISHER: Last year, Mr. Gordon, you gave us a comparison between the C.N.R. and the C.P.R., and I brought up at that time a question of management personnel for comparison between the two railways. I have been looking at the statistics provided in the railway transport employment publication by D.B.S. and I wanted to bring this to your attention so that you could give us a comment on it. If you compare the two railways for 1957 and 1961 in these statistics for the first three categories under the general division covering executive officers and assistants, professional and sub-professional assistant and chief assistants, chief and supervisory clerks, you will note that from 1957 to 1961, in connection with these three classifications, the C.P.R. decreased their number of people in these categories by a little bit less than three per cent while, at the same time, the C.N.R. increased their number of employees in these categories by 16.5 per cent. Now, I do not want to revive in detail the controversy about chiefs and Indians but from a comparison of the two railways it would appear the C.P.R. is cutting down the number of its chief supervisory and executive personnel, while the C.N.R. is increasing them, and I would like your comment on this.

Mr. GORDON: Well, as you know, when we discussed this last year we established that statistics were not comparable and you very properly inquired why could they not be made comparable. We have had a great deal of difficulty in getting comparability of statistics, but I will give you what does represent comparability. Allow me to tell you what we have done in order to improve the comparability of Canadian National and Canadian Pacific personnel statistics. A comprehensive study of occupation titles was undertaken last year by Canadian National. This study disclosed, first, that approximately 4,500 job titles are currently in use, and secondly, that as between each region variations have occurred in the allocation of job titles to one or another of 84 employee groups of which the Dominion Bureau of Statistics requires the railways to report employee statistics. The reason for this variation is that many of the occupation titles are comparatively new to the railway industry and thus not defined or classified in the Canadian Classification of Railway Employees published by the Dominion Bureau of Statistics in January 1956, with the result that each region made its own allocations independently.

To insure uniformity in reporting by all regions all job titles have been examined and coded by the Personnel and Labour Relations Department and as new titles are established they too will be classified according to this new code.

Canadian Pacific was invited to participate in the study but they decided to follow independently the same procedure as Canadian National. They began by investigating the degree of standardization used in classifying occupation titles existing in their various regions and a report of their findings was expected by the end of December 1961, but we were subsequently advised that the study would not be completed before the end of March.

In April of this year, Canadian National, in conjunction with Canadian Pacific, dominion bureau of statistics and board of transport commissioners under the aegis of the Railway Association of Canada undertook a critical examination of the Canadian Classification of Railway Employees.

As a result of this study, a proposed reclassification of railway employees was submitted to the Railway Association of Canada on October 16, 1962. The chief aims of this proposal are to produce; (1) uniform reporting by all reporting railways in Canada, and, (2) a more refined classification of employees than now exists in the 84 employee groups of the present classification.

The proposed re-classification was accepted in principle by the Railway Association but was referred back to the working committee to consider the practicality of implementing certain changes suggested by the membership of the Railway Association.

A target date of January 1964 has been set for implementation of the revised classification by all reporting railways in Canada.

So, I hope we will get these statistics on a basis which we feel makes sense—and I mean on the basis of comparing like with like.

Let me give you this table. If it is in order, Mr. Chairman, with the permission of the committee I would like to give this table to the reporter so that it can be put in the minutes; otherwise he would experience difficulty in following this.

Proportion of white collar employees (clerical, supervisory and managerial) in the total labour force

	1947	1956	1957	1958	1959	1960	1961
C.N.R. (1)	22.2	23.4	24.2	25.5	25.8	26.6	27.3
C.P.R. (2)	—	23.2	24.2	25.7	26.1	27.2	28.2
U.S. Class I RR.	22.4	25.3	25.8	27.5	27.3	27.6	27.6
*All manufacturing ..	16.1	22.9	23.8	24.4	23.6	24.4	N/A
*Durable goods	15.4	22.8	24.3	25.0	23.7	25.2	N/A

Proportion of managerial and supervisory employees in total labour force

	1956	1957	1958	1959	1960	1961
C.N.R. (1)	10.7	11.3	12.0	12.2	12.6	13.5
C.P.R. (2)	10.8	11.0	11.7	11.7	11.9	12.7
U.S. Class I RR	11.2	11.5	12.4	12.4	12.6	12.7

Proportion of clerical employees in total labour force

	1956	1957	1958	1959	1960	1961
C.N.R. (1)	12.7	12.9	13.5	13.6	14.0	13.8
C.P.R. (2)	12.5	13.2	14.0	14.4	15.3	15.5
U.S. Class I RR	14.1	14.3	15.1	14.9	14.3	14.9

Proportion of managerial (3) employees in total labour force

	1947	1958	1959	1960	1961
C.N.R. (1)	2.7	4.5	4.7	5.0	5.8
C.P.R. (2)	(Not available)		4.4	4.5	4.8
U.S. Class I RR	4.1	5.1	6.5	6.7	6.9

(1) Canadian lines, railway—C.N.R. annual compensation report

(2) Railway—C.P.R. annual compensation report

(3) Executives, officers, professionals, roadmasters, B & B masters, chief dispatchers

* D.B.S.—Earnings and hours of work in mfg. (Annual)

This table covers the period from 1947 through to 1961 in connection with the proportion of white collar employees (clerical, supervisory and managerial) in the total labour force as compared with the C.P.R.—and that is a general classification. The figure for 1961 is 27.3 per cent in the case of the C.N.R. and in the case of the C.P.R. 28.2 per cent. In United States class one railways, it was 27.6 per cent. We are trying to get the figures available for all manufacturing and the durable goods industry, but they are not available for 1961. However, in 1960 the C.N.R. showed 26.6 per cent, the C.P.R. 27.2 per cent, the United States class one railways, 27.6 per cent, all manufacturing, 24.4 per cent, durable goods, 25.2 per cent, and it goes back through the years with the same differential.

If you take the proportion of managerial and supervisory employees in the total labour force you will find, in the case of the C.N.R. the 1961 figure was 13.5 per cent, the C.P.R. 12.7 per cent, and the United States class one railways, 12.7 per cent. So, that shows it is slightly higher in the case of the C.N.R., and that margin has been constant back through the years. One obvious reason for that is due to the fact that we have a wider spread railway in a geographical sense. We have more mileage to look after than the C.P.R. and that lends itself to a somewhat higher professional force in that connection. But as the figures are so close together I do not think they represent very much in that respect.

I have some other figures here, and these are probably the same. As I say, the proportion of supervisory employees whom we might colloquially call chiefs in the railway labour force is very close as between the C.P.R. and the C.N.R., having regard to the different type of plant we operate.

Mr. FISHER: Would you look under the general heading of D.B.S. in regard to the executive officers and assistants in the four years between 1957 and 1961. You will note the C.P.R. has been able to make a small reduction in the case of executive officers and assistants.

Instead of a reduction the Canadian National Railways has had an increase. I just naturally assumed that in these posts at least there would be a fairly direct comparison. I also noted that the average salary or wage in this particular category in the Canadian Pacific Railway was higher.

Mr. GORDON: They are higher, yes.

Mr. FISHER: I also noticed that comparatively the total position between the C.P.R. and the C.N.R. in this category is higher. I wondered whether, perhaps the conclusion that might be fair is that the C.P.R. is able to make do with fewer executives and assistants because it pays them better?

Mr. GORDON: Oh, I do not think that is a fair assumption. I think it is quite obvious that the C.P.R. salaries at the top level are substantially higher than the C.N.R. salaries starting with the representative figure of, call it the president of the railways. I think that very substantially larger salary would affect the figure particularly in regard to the little group.

Mr. BENEDICKSON: Do we have the right to ask what the president's salary is?

Mr. GORDON: You may ask me but I cannot tell you. Perhaps you could get Mr. Crump here, and he might volunteer that information.

I am comparing this with United States class 1 railways where the differential is very marked indeed.

I wanted to say that I do not think this difference represents lower quality at all. This merely means that the Canadian National Railways need somewhat more executives and assistants, and mind you, the difference is not marked, because of the nature of the beast, if you want to call it that.

One example of the necessity for a greater number is manifested right here in this room. The C.P.R. does not have to take time out to attend committees of

this kind. I think it is also true, and Mr. Balcer I am sure will support me in this, that the Canadian National does a lot of work in terms of advising the government. If the government department officials want some information which is related to the railway business they quite naturally turn to us. We do not charge for that service, but we put our men to work on these things. We do quite a lot in the way of advisory work assisting the departmental officials, and this takes time.

All of these things add up and, as I said before, we have a different type of railway altogether. The C.P.R. was built as an integrated railway from the beginning. It is a planned railway. We are the inheritors, as has been said many times, of six railway systems that went bankrupt and which had to be taken over by the Canadian people. Included in the C.N.R. system today, as nearly as we have been able to assess, are over 430 individual railway charters and corporations that have come down through the years. You would find a lot of information about that by reading the two volumes of the history of the C.N.R. that have been recently published.

Mr. FISHER: I have read them.

Mr. GORDON: Indeed, I think you would find that this is a rather startling story.

Mr. FISHER: It does not paint a very good picture of politicians.

Mr. GORDON: It does not paint a very good picture of anybody. There was chicanery, greed, graft, misappropriation and whatever name you might think of that brought about the disaster that led to the formation of the Canadian National Railways. The people of Canada were obliged to take over these railways which had collapsed, because there they were and they were needed by the people. The reason these railways were put together was to provide a management that would eliminate these things that had caused the disasters in the past. I would like to think that some recommendation for effort in that connection is forthcoming.

What I started to say is that when you get a situation like that and with the system we have now we must work all the time to get proper coordination. I do not mind telling you that when we tackled the hump yard situation in Winnipeg we had to eliminate three conflicting marshalling yards. We were hauling freight backwards and forwards between the yards. The same was true of Moncton and we eliminated that difficulty there. This all involves a process of amalgamation. Until we get this system put together on the basis of operating as one single system, and until all these conflicting factors are eliminated, there is a tendency to require more members in terms of supervision. Obviously, you can operate one coordinated yard on a much better basis than you can operate two or three.

Mr. FISHER: I should like to ask you one further question in relation to this subject. You expressed the view yesterday that the principle upon which you operate is free enterprise. I want to ask you whether you are sure within the management structure of the C.N.R., this free enterprise attitude exists, or whether a civil service attitude exists insofar as jobs and security are concerned?

Mr. GORDON: I think that is a very valid question and I am glad to have an opportunity of answering it. Any large organization, it does not matter whether it is a free enterprise or a government organization, tends to develop a form of bureaucracy that always has to be fought against. Certainly, there is an element of that in the C.N.R. and it is true in the C.P.R. also, but I do believe that we do have the business principles established on the C.N.R. that can properly be defined as a free enterprise system. One of the outstanding matters that has always impressed me is that among all the questions that have come up during my 12 or 13 years in office and on this committee and otherwise

—maybe I am leading with my chin this way—there is one question that has never been raised and there has never been the slightest suspicion of any form of graft or corruption in the C.N.R.

Some hon. MEMBERS: Quite, quite.

Mr. GORDON: I am proud of that. That does not get done without an honest management, with people who really recognize the principles of true business in any of our contracts, in any of our purchases, in any of our negotiations or anything that has to do with handling of money. I have never heard anyone even suggest that there could be anything wrong with the C.N.R. That is quite a tribute when you start off with the thought that we started the system in 1923 with a terribly, terribly bad record. All you have to do, as I say, is read Colonel Stevens history to see what I mean by that. All those things were eliminated and purged. I have never had to worry my head about it at all. I have always been very alert to that question. I am not saying that there have not been occasions when it was necessary to keep a pretty strict eye, but there have never been any successful efforts at all, and I do not think a suspicion, as I said before, has ever been raised.

Mr. FISHER: You moved into that field and I thought you might go on to this question of the matter of the purges or the firings or the review that you have of executive performance and the rate of separations that you had from the company on the management level. I feel that questions in this line should be asked because—and you would probably disagree with me—this is the sort of thing that employees on the lower level are constantly encountering, that the man at the bottom of the deal gets shuffled off on automation changes and things like that, but this never seems to happen to the executives.

Mr. GORDON: I think that that is a difficult question to deal with. Again we are dealing with different situations altogether. The employee, as you say, at the bottom of the heap is usually a scheduled employee who is engaged under strict provisions of wage agreements which cover seniority and cover his rights to promotion. In that respect management is restricted in its action. We do not get the opportunity sometimes to recognize those men as well as we would like to because of the operation of the union requirements. On the particular point that you have in mind, when we have displacements of labour they almost never are of a type or character where we can completely abandon the particular effort. There is still need of a supervisor. You may have a supervisor with 100 men under him. If you eliminate or reduce the work to 75 men, you still need that supervisor. You cannot do it with three-quarters of a supervisor, you have to have the full man. So it is difficult to really analyze it to see whether you get the promotional reduction in the supervisory force that you would in regard to employees in the shops and the trades generally.

Mr. FISHER: You have separations on the lower levels of the classifications as the result of incompetence, drunkenness and factors like that. What about the rate of separation on the management level?

Mr. GORDON: We have separations of that kind also but we do not advertise them. We have dismissed officers for reasons similar to the type for which we dismiss men, but it is usually done on the basis that we do not prejudice their future changes of employment.

Mr. FISHER: Have you a comparison of the ratio of wage increases of management and personnel which are covered by union contract as compared to the ratio of those which are not so covered?

Mr. GORDON: I do not think we have that figure.

The CHAIRMAN: It is now 5.30, gentlemen, so we shall adjourn until 8.00 o'clock tonight in this same room. Thank you.

EVENING SITTING

The CHAIRMAN: Gentlemen, I see a quorum. We are on personnel and labour relations. We have been over that pretty well.

Mr. BEAULE: I have a question on labour relations. I have had a few letters from the railroad trainmen of the C.N.R. asking if they can have a vote in the C.N. to have another union of trainmen. Is it possible to have a vote like this between the trainmen?

Mr. GORDON: I think this is the same question which was raised earlier in the meetings of the committee. I explained then that management has no means of instructing the men as to what union they should belong to. That is really a matter for the workers themselves.

Mr. BEAULE: A few months ago the servicing and maintenance of passenger cars was done in Quebec city. Is it the intention of the C.N.R. to move the car shop and the motive shop from the Charny plant to Limoilou? The employees there would like an answer from the C.N.R. authorities in this matter.

Mr. GORDON: That would be a matter that would be dealt with by the local officials.

Mr. DEMCOE: This is something that would come under the area.

Mr. GORDON: This is under the responsibility and jurisdiction of the area manager.

Mr. BEAULE: Does your office have the final say in this matter?

Mr. GORDON: In a matter of that kind it would be a decision of the area manager.

Mr. BEAULE: What would happen to the employees if they were laid off? I mean the men who are qualified, 50 years of age, and have no seniority at those two points.

Mr. GORDON: I could not answer that because I do not know the circumstances. We would have to know what the case is in order for me to answer it. I do not know the particular situation to which you are referring. All these adjustment in respect of labour are dealt with in accordance with the seniority provisions of the local agreements. The local manager would be quite qualified to deal with the particular point.

The CHAIRMAN: Now, gentlemen, the next item is pensions.

Mr. BADANAI: When a pensioner dies—

Mr. FISHER: I have some more questions on personnel and labour relations.

The CHAIRMAN: I thought you had finished with that.

Mr. FISHER: No. I just want to bring out one final point in relation to these statistics. Would it be your view that these statistics which are provided by the dominion bureau of statistics are of limited use until this review is complete.

Mr. GORDON: Yes. As a matter of fact they are. They are definitely misleading for the purposes of the comparison.

Mr. FISHER: One of the things I have encountered in being involved in a conciliation dispute or arbitration is that all the unions, and at times management, use these statistics for various purposes, mostly to make their own particular case. How long has it been recognized that this comparability, particularly in the fields we have been touching on, has existed.

Mr. GORDON: I do not know. All I know is that the statistics when they are brought before our conciliation boards and so forth are always prepared in such a way that like is compared to like. That can be done by people who understand what the figures mean.

Mr. FISHER: Obviously I cannot compare the figures in any relevant or intelligent way.

Mr. GORDON: You are interested in having an appreciation of the proportion of managerial and supervisory employees in our total labour force as compared to the C.P.R.

Mr. FISHER: Yes.

Mr. GORDON: I cannot give you that in terms of numbers, but I can give it to you in percentage which tells the story even better. I have it here for the last six years, but for your purpose I will compare 1956 with 1961. In the C.N.R. the proportion of managerial and supervisory employees of the total labour force in 1956 was 10.7 per cent and in the C.P.R. it was 10.8 per cent. In 1961, it had risen on the C.N.R. to 13.5 per cent and on the C.P.R. to 12.7 per cent. So that our increase is slightly larger than that of the C.P.R., but the figures are still pretty close together.

Mr. FISHER: Do you expect there will be a reduction in your management personnel once the new regional area situations are complete?

Mr. GORDON: Yes. I would estimate there would be a reduction when the reorganization is completed and properly jelled.

Mr. FISHER: The other question on which I wanted some kind of a statistical appreciation from you related to the relative rise in the payroll income to the contract people as against the people who are not under contract.

Mr. GORDON: Do you mean the increased income?

Mr. FISHER: I will put it another way. The argument is constantly encountered from management personnel that is the union contracts that they have to make that are forcing up their payroll.

Mr. GORDON: We used to have a table along that line, but I do not know if I can put my hands on it at the moment.

Mr. FISHER: In order to save time, do you have a table which you could put on the record later?

Mr. GORDON: There is a table somewhere.

Mr. FISHER: Will you let me have it later?

Mr. GORDON: I will if I can get it.

Mr. FISHER: In relation to the treatment of management personnel and other personnel on the railroad, when it comes to a job ending in a certain location and they move to another location, are there any differences in treatment given to management personnel as against, say, an operator who would have to make a move a considerable distance away in location?

Mr. GORDON: The rule is practically the same in both cases, except that the supervisory personnel are expected to accept moves to any point that may come up at any time.

Mr. FISHER: If a supervisory person were moving, let us say, from Edmonton to Winnipeg, are there any special arrangements that the company has in relation to his moving costs and the establishment of his family for a period?

Mr. GORDON: Mr. Demcoe has been moved around quite a good deal and his expenses for moving are on essentially the same basis as those of an employee.

Mr. DEMCOE: The employees move of their own volition and in accordance with the terms of the agreement. So far as supervisors are concerned, we have to move them; whereas a scheduled employee moves to a job which he can hold at a particular location whether he moves into a vacancy or bumps a junior man who may have to bump another man at another location.

Actually, we pay his moving expenses; that is we look after the movement of his goods from station to station.

Mr. FISHER: Is there any difference made in the case of supervisory personnel who separate from the company and a worker who loses his work on the railway because of the introduction of automation or other techniques? Do management personnel receive any severance pay?

Mr. DEMCOE: No, not that I know of.

Mr. FISHER: I would like at this time to turn to another aspect of personnel and labour relations. I had some experience with one of the disputes in which the railway was involved, which comes under personnel and labour relations. One of the points that was continually brought forward by the brotherhood—and in this case it was the brotherhood of locomotive firemen—related to the redundancy of firemen. They would like to know—and I also would like to know—what the company's plans are eventually and what it has in mind at the present time for the training of engineers once this present well of firemen diminishes.

Mr. RIDEOUT: By contract the railway is entitled to hire locomotive engineers.

Mr. FISHER: I know they may be entitled to hire locomotive engineers. However, there are certain parts of the system where the well of firemen is beginning to dry up. Now, the whole future of the union and what they call the trade are involved here. There is a very keen interest as to how the company plans to recruit engineers in the future.

Mr. GORDON: Well, this is another general question and I cannot give any more than a general answer to it. We will have to deal with these situations as they arise. When this matter was under discussion at the time of the firemen's dispute I was involved and our officers had no fears at all about their ability to find means of training engineers for the future. But, first of all, we will carry out the conditions in connection with the agreements that exist at the present time. It is not difficult now-a-days on a diesel locomotive; we can take a man with any ability at all and in short order qualify him as an engineer to run a diesel locomotive—and of course we do that in co-operation with the union.

Mr. FISHER: That is with the engineers union?

Mr. GORDON: Yes.

Mr. FISHER: Has the C.N.R. given any consideration to the kind of policy that was advocated not too long ago by one of the vice presidents of the C.P.R., Mr. Sinclair, with regard to strikes and so on.

Mr. GORDON: I do not know what the views were to which you refer. I am not an avid reader of Mr. Sinclair.

Mr. FISHER: I do not blame you for that. What I am curious about is this. Has the C.N.R. under consideration a management approach to labour disputes that would lead to the outlawing of strike action?

Mr. GORDON: Did you say the outlawing of strike action?

Mr. FISHER: Yes.

Mr. GORDON: I think it depends entirely on the development of legislation. We have made representations to the railway association also in terms of suggested amendments to the Industrial Relations and Disputes Investigation Act and, as far as I recollect, we have never made any representations to deprive a union of the right to strike.

Mr. McDONALD (*Hamilton South*): Could I ask one question?

The CHAIRMAN: Proceed.

Mr. McDONALD (*Hamilton South*): During your tenure of office Mr. Gordon, have you found that management-labour negotiations have become better over the years, in comparison with how things were when you first came in as president of the C.N.R.? Have you found that a better understanding exists of the problems between management and labour?

Mr. GORDON: Well, that is a very difficult thing to appraise. It is very tempting for me to give a very cheerful sort of answer to that. But, I really do not know. However, from my observations, I could say that our relations with the union leaders have become on a much better understanding basis. We talk to each other much more frankly and I think on both sides we have a better understanding of the objectives both on the management side and the objectives that the union leaders have; but whether you could say that we have made progress in the matter of eliminating cause for future disputes I suppose that is difficult to answer. But, our labour relations in the broad general sense on the railway are good.

Mr. McDONALD (*Hamilton South*): Have they been better than they were before?

Mr. GORDON: Yes, I think they are good, and I think that is demonstrated in a striking way in connection with the last settlement with the non-ops. For the first time we got unanimous support through a conciliation board in which labour and management were involved.

Mr. McDONALD (*Hamilton South*): Is this because management and labour are talking more over the table from time to time rather than leaving it to a crucial moment?

Mr. GORDON: I think in part. Anyway, we have tried that. Our labour people have had a lot of discussion with labour quite apart from the period of crisis.

Mr. FISHER: In these particular negotiations there was bad feeling at the start. Some animosity arose on the union side because they felt the public announcement prior to the start of the negotiations by the vice presidents of the two railways was an unfair advantage. I think you may remember this. Was it Mr. Wilson, or Mr. Emmerson?

Mr. GORDON: Yes.

Mr. FISHER: In any event, a joint statement was made that indicated that the railways, in the popular sense, were prepared to make a great number of concessions. The bitterness which I encountered was that when they sat down to the table these concessions were not as substantial as the press releases seemed to indicate.

Mr. GORDON: I do not think that is true. Of course, what happens in any labour dispute? Inevitably the ones on each side of the dispute will make a statement as to how they feel about it. The statement is never friendly at that times as both sides justify their position to the maximum extent possible.

In this last dispute there was a new strategy on the part of management in that they made an offer before they really got down to the bargaining stage.

Mr. FISHER: Was there not a statement made?

Mr. GORDON: That offer was made direct to them and was refused. It was refused without any discussion. It was after that point that the statements you mentioned were issued. There was a meeting at which management indicated they were prepared to discuss along certain lines and that was refused or turned down. You are talking about the non-ops, are you not?

Mr. FISHER: Yes. I am referring to the settlement you made with the B. of R.T. and you were saying settlement was much delayed on the part of the C.P.R. Again, I take it, from the union officials I have talked to, that there

is tendency for the two managements of the two railways to co-operate in taking turns at trying to make changes in the agreement in one field one time and then in another field at another time and then try to match the gains or the advances that can be made or that have been made in the previous negotiation in respect of the other railway, and to make all apply to the other railway the next time negotiations came around.

Mr. GORDON: Management is not nearly that clever. This does not work that way in respect of non-ops. You must remember that this is a national bargaining group, and as a national bargaining group both railways have to bargain in collective bargainings with that group which represents both railways. In the case of trainmen, and engineers in the operating trades there are individual agreements and each railway has been negotiating its own agreement.

In terms of the wage situation, it is true that the railway managements have the view in respect of the offer that they are prepared to make in regard to wages, but there are many many differences in the working rules between the two railway systems. Where the trouble arises in regard to the trainmen agreement is in connection with the working rules. That is where the stalemate arrived, and that is where the delay occurred in respect of the matter of settlement by the C.P.R.

Mr. FISHER: Now that the settlement has been achieved, does this mean any changes that might be considered advances on the management side as a result of this latest C.P.R.-B.R.T. settlement, are going to become sort of contentious in the non-running negotiations?

Mr. GORDON: I do not think so. The rules in question, as I recall them, were only dissimilar as between the two organizations, and where the dispute arose it affected a different series of rules from what it did in our case.

There is a long complex history in regard to the development of those rules, but I do not think it follows any more on one side than on the other. If the men feel they have an advantage from the C.N.R. as compared with the final settlement with the C.P.R. they will certainly keep that in mind at the next round of negotiations. I presume management of the C.N.R. will have the same kind of views depending upon which rule is in question.

Mr. FISHER: What is your position now in respect of the durable goods standard?

Mr. GORDON: Are you asking what our position is?

Mr. FISHER: Yes.

Mr. GORDON: You mean in respect of the relation of wages to the durable goods standard? My recollection is that we are somewhat in advance of it as between the two agreements.

Mr. FISHER: Is the C.N.R. still in the position it was a few years ago of advocating that standard?

Mr. GORDON: No, we have never advocated the standard, never.

Mr. FISHER: You have never advocated the standard?

Mr. GORDON: No, we have never advocated that standard.

Mr. FISHER: In your report you have made reference to the presidential commission, and you note that it is still not reported. It has reported now and since you have made reference to it in your report I would appreciate it if you would bring us up to date as to the influence this may have to your American lines and, secondly, I should like you to comment in respect of the general significance of this report in so far as North America railroading is concerned.

Mr. GORDON: The United States presidential commission has reported and has made some very far reaching recommendations. They have made very far reaching recommendations indeed, in terms of recognizing more freedom for management in regard to many of the operations of the railway. That is reported but it has not yet been implemented and is still under discussion. During the year there was also agreement made in regard to the wage negotiations on the U.S. non-operating personnel. It was put in force in June, 1962 effective from February 1, 1962, the wage increase being four cents an hour, effective February 1, and two per cent, which is 6.28 cents, effective May 1, 1962. There is a moratorium with no further wage increase until May 1, 1963.

In the meantime, this list of recommendations by the presidential commission is being fought out right now through whatever board or authority is involved.

Mr. FISHER: There is some bitterness expressed on the part of railway labour in that two Canadian railway management representatives assisted to a certain degree this commission at the hearings that were held. Can you tell us briefly what contribution the Canadian National Railways did make to those hearings?

Mr. GORDON: I do not recall any. I think one of our officers appeared to give some details in connection with the use of firemen. That is the only thing I remember in this regard. There was one fellow from the C.P.R., who appeared to give evidence in regard to the practical results of the firemen agreement reached in Canada.

Mr. FISHER: What significance do you think the presidential commission may have?

Mr. GORDON: I am afraid you would have to ask the presidential commission, I do not know.

Mr. FISHER: What significance do these findings have with relation to your railway and to the unions in Canada?

Mr. GORDON: I would not think they would have any significance. I do believe that if the presidential commission's findings or recommendations are implemented in total they will be quite important implications in regard to the Canadian scene.

Mr. FISHER: I would assume that is why you made note of this in your annual report?

Mr. GORDON: Yes. This was noted as a matter of information. We simply made a factual statement in our annual report as to the situation. We have a United States operation and we simply noted here that there was a commission established to study the changing work rules. That presidential commission brought in their findings. I have a list of them here if you want me to put them on the record.

Mr. FISHER: I know what they are.

Mr. GORDON: They are far reaching recommendations but whether they can be implemented or not remains to be seen.

Mr. FISHER: Again my experience in these matters, particularly as a result of speaking with union officials, would indicate that we are very badly in need of some breakthrough in the whole concept of relations between management and labour, particularly with regard to the kind of changes that are advocated by the presidential report. Has the C.N.R. given any consideration to taking the lead on a unilateral basis with its own unions in trying to establish a new approach, a new system or new method, if we can put it that way, in dealing with this matter, and I am not referring to the non-ops but the operating unions?

Mr. GORDON: We have been trying for a number of years to talk to our labour unions on the basis of getting unity of working rules between the western half of Canada and the eastern half of Canada as well as with the C.P.R., but we have had most extraordinary difficulties in getting any agreement at all. By an accident of chance and also because of the fact that the C.N.R., as I told you earlier to-day, consists of a number of different railways, the working rules affecting the C.N.R. have been quite muddled and have been quite different because there was a carryover from the predecessor railway lines. We have been striving for a long time now to try to see if we could get a uniform set of these working rules in the first place as they affect the Canadian National Railways itself, and also to go further to see if we could get some understanding for the same situation as the rules apply between the C.N.R. and the C.P.R. We have not made much progress. We have had a series of very hard bargaining sessions in an attempt to do that, but the fact of the matter is that any of these changes in the rules involves money on one side or the other and we just have not been able to find a means of reaching agreement.

Mr. RIDEOUT: I should like to make one correction. I am trying to be helpful but I think the fourth estate might get the wrong impression. I do not think the president quite meant that you could train a locomotive engineer very easily. I think you were referring to an individual who has had some practical experience?

Mr. GORDON: I would not go that far. I think the operation of a diesel locomotive is of such a type and character that if one took a man of ordinary intelligence with reasonable adaptiveness one could train him to be an engineer in a relatively short time. The individual would need a training period and would need some practical experience, I agree, I do not think however that the training period need be as long now as it was in respect of steam locomotives.

Mr. RIDEOUT: It implies that you could take anyone.

Mr. GORDON: It would be a period of training and it would take some practical experience.

Mr. FISHER: For the next year and until late in 1963, and before any major negotiations begin again.

Mr. GORDON: No, non-ops agreement will expire in December of 1963.

Mr. FISHER: And the agreement in the running trades will not expire until 1964?

Mr. GORDON: I do not remember the dates.

Mr. FISHER: The point that interests me is that for the next financial year you do not face the hazard of a wage increase. Is that correct?

Mr. GORDON: I think that is right.

Mr. BEAULE: I have one more question. We spoke a few minutes ago about employees moving from one point to another. Is the employee allowed to engage the company or does he have to go by freight service?

Mr. GORDON: There is a definite set of rules with regard to moving. I certainly did not expect to have to go into detail of this kind. It is a very well known rule for anybody that moves.

Mr. VAUGHAN: These are all covered in the wage agreement, as you may know. If somebody moves from one point to another there is a provision in the agreements which provide for the transportation of him and his family, his household goods and materials and so on. An example of this comes to my mind—Mr. Rideout will remember this—on the occasion when some people were transferred from Moncton, or elected to move from Moncton. The company went to a great expense to assist those employees in their move, and we have had some very nice letters from the chairman about it. The company put

sleeping cars on the sidings so that the family could get aboard, the children could go to bed and the family would have no inconvenience. In Montreal there was somebody to assist the family through the station on to other trains, and so on. We have these letters here although I cannot put my finger on them at the moment. These people and the general chairman have written to the company expressing appreciation of the consideration shown. I think perhaps that will give you an idea of our outlook.

Mr. BENIDICKSON: That applies to somebody who has enough seniority to take a job in another community from where he has been displaced. However, when someone down the totem pole loses his job, when there is an overall change such as, for instance, the change of the passenger service between Winnipeg and Port Arthur, and somebody somewhere loses his job, there is no consideration for him is there, under section 182 of the C.N.R. act or in any other way?

Mr. DEMCOE: The individual is laid off in the particular case, or is bumped, and then he goes on to the next position. It may be in the immediate vicinity or he may have to travel to another terminal, which he does at his own expense.

Mr. BENIDICKSON: What about the man at the bottom of the totem pole? What happens to him?

Mr. DEMCOE: He is eventually laid off until such time as he can hold a job.

Mr. ADDISON: Is there any attempt made at the present time to tie in wage increases with productivity? Is there a standing committee on management and labour working on the basis of productivity?

Mr. GORDON: I went into that yesterday. We have a whole series of examinations of that kind, mostly under the heading of what we call "work study". Management has sent out a number of group teams to examine all operations to see whether or not by reason of assisting employees with better tools, better working arrangements, better facilities generally, we can increase the productivity of the employee.

Mr. ADDISON: My question is: are the wage increases presently being negotiated or to be negotiated in the future tied into the increase in productivity?

Mr. GORDON: Not specifically.

Mr. McDONALD (*Hamilton south*): I would like to ask a question of Mr. Balcer. Is the government not taking a lead in this productivity versus wage business by setting up the productivity council so that management and labour can be more aligned with regard to productivity versus wages?

Mr. BALCER: Yes, definitely. That is one of the great purposes of the productivity council.

The CHAIRMAN: Are there any further questions on pensions or personnel and labour?

Mr. BADANAI: I would just like to ask the following question. As a result of the changes made in the pension plan which became effective in January, 1961, are the pension service credits vested in the name of the employee in the event of resigning or dismissal? In other words, is there a measure of dependability in the pension credits?

Mr. RIDEOUT: He gets his own portion back.

Mr. GORDON: Wait a moment, there is a difference between resignation and dismissal. We do not bracket the two together.

Mr. BADANAI: I want to know if there is any difference between the two, between resigning and dismissal.

Mr. GORDON: That is what you are asking us, whether there is a difference between resigning and dismissal.

Mr. BADANAI: Difference in credit.

Mr. GORDON: If a man is dismissed, he can lose his pension benefit—all of it—depending on the circumstances.

You are asking about pensions, not about his own contributions, are you not? A man will always get his own contribution back with interest.

Mr. BADANAI: But none of the contribution paid by the company?

Mr. GORDON: If he is dismissed for cause and is not reinstated within a period of six years—it used to be two years—then he is not pensionable but he does get his own credit back with interest.

Mr. BADANAI: Can you tell me now, when a pensioner dies, is the pension to the widow reduced?

Mr. GORDON: Under certain circumstances, yes.

Mr. BADANAI: What circumstances?

Mr. GORDON: Under these circumstances: there is a discount factor depending upon the age of the widow compared to the age of her husband, a discount factor which starts with fifteen years differential, one per cent for each year that she is younger than her deceased husband over and above fifteen years.

Just a moment, please, perhaps I have misled you again. This is all subject to most complicated rules. Of course, the widow does not get the full pension that her husband got. She gets half of her husband's pension if he was a pensioner, and if she is younger than he is by more than fifteen years that half pension is reduced by a further one per cent.

Mr. BADANAI: I have another question, Mr. Chairman. What is being done toward railways' pensioners whose scale of pension is low because of broken times in the years prior to 1940?

Mr. GORDON: Well, the question of broken times, of course, raises the whole principle of our pension payments. We allow pension credits only on the basis of paid service, that is to say, a man accumulates a credit with his years of service based on his length of service for which he has been paid; so he can only accumulate a pension credit on the basis of actual time served in the railway for which he has been paid.

Mr. FISHER: May I ask a question? I would like to ask the minister this question: last year this committee made a recommendation which is to be found in its second report at page 543, and which is headed "pension anomalies". It says:

Your committee is aware that its view of the pension situation was incomplete because of its limited capabilities in terms of time and research assistance. Therefore, it recommends that the government give consideration to calling a meeting of the representatives of the Canadian National Railways and Canadian Pacific Railway and other class I railways and their pension boards, with representatives of the Minister of Transport and the pension officials of the Department of National Health and Welfare, to review pension anomalies that may exist particularly in regard to

(a) those railway pensioners who formerly worked for government railways in the Maritimes and Quebec,

(b) those railway pensioners who never had the opportunity for more than a basic pension,

- (c) those railway pensioners whose scale of pension is low because of broken time in the years prior to 1940.

I think it is fair to ask the minister what the government has done about this recommendation.

Mr. BALCER: Was it a recommendation of this committee?

Mr. FISHER: Yes, from this committee last year.

Mr. BALCER: We have started work towards this purpose, and the Canadian National Railways have increased the pensions quite handsomely and have made some very important changes.

Mr. GORDON: The Prime Minister made a full statement about it to parliament.

Mr. FISHER: I am aware of the statement that the Prime Minister made. I think everyone appreciates the changes which took place, but I want to know whether the government has called a meeting of these representatives, as suggested by the committee.

Mr. BALCER: No, no formal meeting was arranged; but I can assure you that I have had some very fruitful meetings with the president of the Canadian National Railways, and following our various discussions, the Canadian National Railways have come up with these pension improvements which were explained and given in detail before the house on Friday, April 13, by the Prime Minister.

Mr. FISHER: Then these advances did not relate to the three points related or brought forward by the committee. We appreciate the consideration which the Canadian National Railways have given to them, or the recommendation that you also have made, and with the Canadian Pacific Railway and with other class I railways, but what have you done about it?

Mr. BALCER: The matter is still under consideration.

Mr. FISHER: Would you say it was under serious consideration?

Mr. BALCER: Yes, but these meetings have not taken place yet.

Mr. FISHER: Not with the Canadian Pacific Railway?

Mr. BALCER: Not with the Canadian Pacific Railway.

Mr. FISHER: I would like to go on with this with Mr. Gordon. I find it very difficult, Mr. Gordon, to answer a mass of briefs we are always getting, and letters we are always getting, for example, from the Canadian National Railways' veterans' association which seem to be particularly vociferous out in British Columbia, and from pensioners across the system particularly because they seem to be bewitched by this tremendous figure which is within the pension reserve of the Canadian National Railways. I would like to make a suggestion that you provide us, if you can, with a brief statement of the position of the Canadian National Railways with regard to this kind of suggestion. I am not suggesting that you make the statement here, but I wish you would provide us with a copy of it so we can answer these people, because I get on the average two or three letters a week on this particular matter.

Mr. GORDON: I would suggest to you, Mr. Fisher, that in order to help you with your correspondence, if you would send those particular letters to us, we would be happy indeed to have the chairman of our pension fund see to it that they are replied to in detail, and we would send you a copy of our answer which you could use as a type when replying to the others.

Mr. FISHER: I would hesitate to do this because I have one here which is quite vitriolic.

Mr. GORDON: I would like to see it and reply to it, not in the same vein, but in a fatherly manner.

Mr. FISHER: Well, if you are prepared to do so, all right.

Mr. GORDON: I have made some of the best friends of my life with people who started off calling me names. So history might repeat itself!

Mr. FISHER: We just might have to forward them to you. But I would like to ask you, in view of the changes that you have made as announced by the Prime Minister, if there are any others which you have under consideration at the present time which might go somewhere towards meeting the three sorts of aspects.

Mr. GORDON: No. The basic trouble of course with these pensioners—and I have gone over this in great detail many times before and I do not want to repeat myself or go into detail with it again—very briefly is, first of all, there are quite a number of existing pensioners who did not take advantage of the opportunities given to them during their period of service to become contributors to the pension fund. They had the right of choice in that respect, but they did not take it. Therefore, as a result they came to the end of their career in the railway and found then they had no pension at all except for the basic pension of \$25.00 a month or less. It was only after then that they began to regret the fact that they had not taken advantage of their opportunity.

But it is not possible to turn back time, and it would be quite unfair to a lot of other people to allow these pensioners special privileges when the great majority of other people serving in the railway did make their contributions and did the thing that was necessary and right to provide for themselves in their old age. Moreover, many of these pensions were taken up when wages were much lower than today, and they find that the pension at the present day is very much reduced in respect of its buying power. I have every sympathy with the situation in which these people may find themselves, but they are in exactly the same position as every other annuitant or pensioner affecting any other industry in Canada.

If there is to be the view that these old age people should be assisted, then it seems to me that it cannot be done as a special concession by the Canadian National Railways, but it must be a matter of general national policy. As you know, steps have already been taken by the government through the old age pension and matters of that kind to recognize these people.

We know the need for assistance, but in my opinion it would be quite wrong to single one special group in particular in the Canadian National Railways for special treatment, because they have no more right to special treatment than any of the widows and pensioners who have served in other industries and find themselves in the same position.

There are a lot of men who bought annuities and did not have an opportunity to benefit from the pension fund, but they made provision for their old age as best they could by buying annuities in various forms, either government annuities or from insurance companies; but as a result of inflation and the declining purchasing power of money they find now that with their pensions they are not able to sustain themselves in their old age as they had planned.

But if there is a feeling abroad that it is a good thing that people in that special position should be helped, very well, but it is a matter for the nation, and not for an individual industry.

Mr. FISHER: I think the difficulty really lies in the size of that fund.

Mr. GORDON: If you will look on page 30, you will see we have shown there a full statement of the assets of the pension fund. When you look at the assets of the fund, you will see that the unsophisticated reader of that fund immediately jumps to the conclusion that there is \$730 million available, and he wonders why he cannot get a piece of it. If you will look at the figures you will find that \$325 million of it represents nothing but an under-

taking by the C.N.R. to accept the liability in respect of the services. In other words, it is an underwriting by the C.N.R. to the effect that the pensions will in fact be paid; but the fund itself is not earning nearly enough to provide, on an actuarial basis, for the pensions we are committed to.

Mr. FISHER: That is the actuarial shortage?

Mr. GORDON: Yes. Mr. Toole just called my attention to this. It is the actuarial section at the bottom of page 31. This is prepared by the professional actuary who examines our fund:

This is to certify that, on the basis of the information made available to us, the reserve for pensions shown in the balance sheet of the pension trust funds of Canadian National Railways, amounting to \$737,667,542 as at December 31, 1961, in our opinion, represented adequate provision for the accumulated liabilities of the pensions then approved and in force and the pensions accrued to the above date in respect of employees then in service under the 1935, 1952 and 1959 plans, excluding pensions granted under prior plans.

They have given that certificate as a reassurance to our pensioners that the pensions will in fact be paid and we in turn have undertaken the underwriting of the \$325 million which enables the actuary to give that certificate.

On page 24 the auditor of the railway has also made a special note in respect of the \$325 million. This is in note number 5. Remember that these notes are qualification of the balance sheet. He says:

Pension Funds:

The company has given a written acknowledgement to the trustee of the pension fund for an amount not exceeding \$325 million for the outstanding liability in respect of prior service of active employees.

I do not know whether or not you can explain that to the individual. If you cannot, we would be glad to help you with it.

Mr. FISHER: Have you any estimate as to when you will be called upon actually to provide all or part of that?

Mr. GORDON: That will depend on what happens in regard to our death likelihood; but we do not see any difficulty in this respect under a period of about 60 or 70 years.

Mr. PUGH: May I make a comment on this. What was the basis behind the last pension increase?

Mr. GORDON: In what respect?

Mr. PUGH: An increase was made not too long ago.

Mr. GORDON: Yes. We had a differential rate that said for the first 20 years a pension was based on one per cent of the average wage for those 20 years—I did not mean to say average wage over the 20 years. He was paid one per cent each year of service multiplied by his average monthly earnings during the last 60 months of service or in any 5 consecutive calendar years whichever is the larger. Then, for the next ten years he was given $1\frac{1}{4}$ per cent, and for any service over 30 years it was $1\frac{1}{2}$ per cent. Then we eliminated the one per cent rate and made only two differentials; in other words, $1\frac{1}{4}$ for 30 years and $1\frac{1}{2}$ beyond that.

Mr. PUGH: Take a man who retired before the last pension increase who had long service and had contributed all the way through. As against the man who retires the month after the pension increase, there is an anomaly. It would seem that this increase must have been based on one thing only, and that is that the fund was of sufficient size to bear the increase.

Mr. GORDON: No. It was based on a consideration that we wanted to get our fund up to a more modern appreciation of pensions. The one per cent seemed to us, in the light of the present day situation, to be rather low.

Mr. PUGH: I think one of the beefs of those who were on pension before the last raise is that they feel they have contributed to this large pension and that because they were retired just before the increase, they are not in the same position as the man who retires one year later, and perhaps both have the same service.

Mr. GORDON: I should also have said that we increased the rate of the pension payment for service from 5 per cent to $5\frac{1}{2}$, so that those in service will have their payments further increased. In respect of the fellow who is just recently retired, that is just one of the facts of life. We cannot see how we can make a pension benefit at any time retroactive. If there is a change, we cannot make it retroactive.

Mr. PUGH: The basis of the raise was in no way geared to the size of the fund in respect of the last pension raise.

Mr. GORDON: No. We figured that with the increase in the pension contribution from 5 to $5\frac{1}{2}$, and a similar increase in contribution on behalf of the company, we could effect the increased rate of payment and bring it more in harmony with other pension funds.

Mr. PUGH: The increase also would bear no relationship to the fact that the number of employees has come down materially in the last five years?

Mr. GORDON: No. That would have no bearing. Of course, the contributions decline as the numbers decline.

Mr. McDONALD (*Hamilton South*): In respect of an employee who contributes to the pension fund in conjunction with the C.N.R., if he is dismissed or leaves after 20 years, does the contribution of the railway not vest in the employee?

Mr. GORDON: There is a provision for portability that becomes operative. It is what is called the deferred pension. If his service terminated other than by reason of death or retirement, he can get the deferred pension.

Mr. McDONALD (*Hamilton South*): If a person went into a pension plan at age 20 and at age 45 you dismissed him and he had been contributing to the plan for 20 years, there is a Canadian law that requires the company to invest their interest in a contributory plan.

Mr. GORDON: Not that I know of.

Mr. FISHER: On the same point—

Mr. McDONALD (*Hamilton South*): I think they do.

In connection with the vesting interest of the employee and the employer's contribution, it is my understanding in the case of any company in Canada that after 20 years the employer's contributions must vest in that of the employee.

Mr. GORDON: Well, there are so many refinements of these things that I get lost. However, I am assured by my officers that effective from January 1, 1961, when service is terminated other than through death or retirement, he has an option of taking his pension payable at what would be his regular time, which is age 65, provided he fits into this rule. So, that is a type of portability.

Mr. VAUGHAN: I think Mr. McDonald is talking about transferring to another company.

Mr. FISHER: Is each person contributing to the pension fund given an individual account?

Mr. GORDON: Do you mean at the time he goes on pension?

Mr. FISHER: No. Is there an individual record not only of his share but the built up share of the company? Can he find out where his pension capability stands?

Mr. RIDEOUT: It covers that right at the bottom of the book there.

Mr. GORDON: You see, there is part one and part two of the pension fund. Part one is a money purchase plan. In connection with these people who are in part one, at the time they come to retirement we take the amount of money plus interest they themselves have contributed and we match that, and with the total sum he has a choice of three or four types of annuities. We do not give him a regular accounting, but any time he wants to know we advise him. I am sorry, Mr. Toole tells me now we do that once a year.

Mr. RIDEOUT: But in part one only?

Mr. GORDON: Yes.

Mr. FISHER: One of the arguments put forward by these people who want to see their pensions and the capability of the fund to pay is that they point to the fact the railway has had a reducing number of employees, that this reflects to quite an extent separations, and that these people who work for just four or five years on the railway can withdraw their contributions but the company's contribution is in the fund and remains there. The argument is that this is a factor in the build up of the reserve. For example, this note I have from the C.N.R. veterans' association remarks on the large and steady increase the pension fund shows and it is their feeling that this will continue because of the situation I have outlined. They go further and argue there should be a much earlier vesting of the pension for employees who leave, say, after five years, ten years and so on, and that it would increase mobility. This is their argument. I would like to know whether the pension board which administers your pension is giving consideration at this time to an earlier vesting.

Mr. GORDON: There never is a time when somebody does not feel the pension fund could be improved. Our policy is to keep a careful watch in regard to developments respecting pension funds as they appear. We made a careful analysis recently and we find that we are pretty much in the three-quarter level, so to speak, in regard to the size of our benefits. In other words, we are not at the top; we are not the best but we certainly are well above the 50 per cent, and we range from between 75 to 80 per cent of that level. We feel if we keep ourselves about there it is about right. Of course, we keep a close eye in regard to what our competitors in the C.P.R. do. But, I think our benefits are somewhat better than the C.P.R.'s.

Mr. FISHER: Are you giving consideration to introducing the same features they have in regard to compulsory participation?

Mr. GORDON: Yes, we have done that. It was effective January 1, 1959.

Mr. FISHER: The announcement with regard to the latest pension increase was made by the Prime Minister in the house, and some of us wondered why this announcement was not made by the pension board or the president himself?

Mr. GORDON: Because the change in the rule needed to have order in council approval and when it was approved by the governor in council the Prime Minister decided he wanted to make the announcement.

Mr. FISHER: He decided he wanted to make the announcement.

Mr. GORDON: It was his own option.

Mr. FISHER: You would not have minded making it?

Mr. GORDON: No, but I could not make the announcement until it was approved by order in council.

The CHAIRMAN: I do not know who has a better right to make an announcement in regard to an order in council.

Mr. OUELLET: Mr. Chairman, we have been discussing the pension plan for about one hour. These figures have been made up by the actuary and I think they are correct figures. Only an actuary can tell a member of the committee exactly the way the pension is running. Those who have worked for a period of five years or ten years do care about the money realized in the fund of the C.N.R. company. But, that has always reverted to the company when someone leaves under those circumstances. Every company operates in this way and the only way you can change it is by changing the contract, as a result of which a higher percentage will be paid by the company. That is my opinion.

Mr. BEAULE: Is it the intention of the C.N.R. to have employees retire at the age of 60?

Mr. GORDON: There is a provision now for a man to retire at 60, if he wishes, and take his pension early. It is not the intention of the company to make age 60 retirement compulsory.

Mr. BEAULE: I have a further question. It is my understanding that if a man is laid off within the first ten years he has six years to get his money back from the pension fund.

Mr. GORDON: No; he can get his money back.

Mr. BEAULE: But he has to resign. If he does not resign he has to wait six years.

Mr. GORDON: Well, that is a new one on me.

Mr. TOOLE: I am not sure why he has to wait that long, but he does have to go through a waiting period or break his service, and I think that is what you are indicating.

Mr. BEAULE: Suppose he is laid off for a period of two, three or five years; he cannot get his money back unless he resigns from the company and then, I suppose—

Mr. TOOLE: If I may interrupt, I think that is right; however, I am not sure of the length of time he has to wait in those circumstances. In other words, he can protect himself for pension purposes by retaining an employee relationship and he can get his funds back only if he severs that employee relationship. He can retain that relationship for some time after the lay-off.

Mr. BEAULE: I want to say that if he has a chance to come back after three or four years he does not want to resign in order to get some money from his pension.

Mr. GORDON: I think I see your point but, you cannot have it both ways.

Mr. BEAULE: Do you have a policy in that regard?

Mr. GORDON: Yes, and that is the policy.

Mr. BEAULE: But if the employee leaves his money in the pension fund and he is laid off and does not work and decides that he wants to get his money he has to resign from the company in order to get the money?

Mr. GORDON: If he wants to cancel his rights in the pension fund he has to resign. We are actually protecting him against himself.

Mr. McDONALD (*Hamilton South*): Can an employee borrow against his pension fund?

Mr. SMITH (*Simcoe North*): Generally speaking it is in the interest of the laid off employee to keep his pension rights as long as possible in case he does come back on strength?

Mr. GORDON: Yes. We have conducted a campaign over the last few years in an attempt to persuade our employees to get into the pension fund for the purpose of providing for their old age. We have done everything possible to convince them not to take their money out of the pension fund because they lose a very valuable benefit by so doing. We try to advise and consult with them in order to persuade them not to surrender their pension rights because to do so is very much against the employees own interest.

The CHAIRMAN: Shall we now proceed to the next item?

Mr. FISHER: Mr. Chairman, I should like to ask a question for information at this point.

Mr. SMITH (*Simcoe North*): All your questions are asked for the purpose of getting information.

Mr. FISHER: I am trying to find out whether this is the place to ask a question in respect of which I am sure every M.P. has received representations.

Mr. CHEVRIER: Are we now dealing with the item, other developments?

Mr. FISHER: I am trying to find out from the chairman whether my question in respect of the printing at Winnipeg falls within this item of other developments.

The CHAIRMAN: To what are you referring?

Mr. CHEVRIER: This has to do with the printing question.

Mr. FISHER: I am referring to the printing at Winnipeg.

Mr. McDONALD (*Hamilton South*): It has to do with the mimeograph machine.

The CHAIRMAN: It certainly does not fall under the pension item.

Mr. CHEVRIER: Mr. Chairman, I should like to ask some questions in respect of the other developments item.

The CHAIRMAN: Shall we proceed now to the other developments item?

Mr. CHEVRIER: I should like to ask first, sir, what the present position is in respect of the Matagami branch line. This report I take it was printed some months ago and I should like to know now what the present position is, how much of the line has been completed and what progress has been made. I would also like to know how much of the haul the C.N.R. is getting from the mine to the zinc and copper refinery at Valleyfield.

Mr. VAUGHAN: The Matagami branch line is not yet completed.

Mr. CHEVRIER: I asked how much of it had been completed. The first sentence in the report states:

Construction started during the summer on a 61-mile line to the Matagami Lake region in north-western Quebec.

Mr. DEMCOE: The clearing is complete, the grading is 80 per cent complete and track laying is complete to mileage 31 of a 72½ mile railroad.

Mr. CHEVRIER: Now, in accordance with the agreement and I understand there is an agreement, how much of the haul to the refinery at Valleyfield will go to the C.N.R., or does it all go to the C.N.R.?

Mr. GORDON: It all goes to the C.N.R. because it is exclusive to the line, is that not right?

Mr. DEMCOE: That is correct.

Mr. GORDON: It is exclusive to that line.

Mr. CHEVRIER: The complete haul is exclusive to the branch line from Matane to Chibougamau.

Mr. GORDON: Yes.

Mr. CHEVRIER: Does the C.N.R. get the rest of the haul from Chibougamau down to Montreal and on to Valleyfield?

Mr. DEMCOE: That is right. The C.N.R. gets the whole haul because it is a C.N.R. line. The haul will be down the line from Senneterre into Montreal and from Montreal on to Coteau, and from Coteau to Valleyfield.

Mr. CHEVRIER: Can you tell us when you expect that this line will be completed?

Mr. VAUGHAN: We expect it will be completed in July, 1963.

Mr. DEMCOE: It will be completed next summer.

Mr. CHEVRIER: Is the cost of this line included in the budget that has been submitted? I notice there is an amount here of \$9,660,000 under chapter seven, 1960-61 for a 60 mile line. Is that the total expenditure?

Mr. GORDON: On what page of the budget do you find that figure?

Mr. CHEVRIER: It is to be found at page 4 of the budget which has been circulated.

Mr. GORDON: Yes, that is the total amount. The \$9,600,000 is the total authorized expenditure.

Mr. CHEVRIER: May I now turn to the line in the Northwest Territories? Could the president give us the present position of that line and tell us what has been done by the railway on behalf of the government since the legislation was approved?

Mr. GORDON: Yes. We have had a very bad season. It was a very heavy rainy season. However, despite that we have made some good progress.

The steel has been laid to mile 55. What we had in mind for the 1962 program is 75 per cent completed. That means the over-all program is 13 per cent completed. The siding and elevator track have been laid and two cars were spotted on October 31 and were loaded with the first grain from the National Grain Company. We did not proceed quite as well as we had hoped because of the unusually wet season which bogged down a lot of work. Nevertheless, we are 75 per cent completed in respect of the 1962 program as of October 31.

Mr. CHEVRIER: When do you expect to complete that line?

Mr. GORDON: We expect to complete it in early 1965.

Mr. CHEVRIER: What is the total cost?

Mr. GORDON: The total cost is estimated at \$75 to \$80 millions.

Mr. VAUGHAN: I believe it is estimated at \$75 millions.

Mr. CHEVRIER: I do not see anything in the budget in this regard.

Mr. GORDON: We are not paying out any money for it at all. We are drawing down from the government as we build.

Mr. FISHER: Mr. Chairman, I should like to ask Mr. Gordon a question relating to the Canada and Gulf Terminal Railway. I received an answer to a question last year to the effect that the railway was in negotiation with this railway regarding running rights, perhaps the purchase or leasing of this railway. I then asked whether these negotiations had any relation to the construction and operation of a line from Matane to Ste. Anne des Monts. The answer given was that this discussion had no relation to the construction of that line. The answer I was given stated that the discussions which were continuing had no relation to the construction of the line from Matane to Ste. Anne des Monts.

Mr. GORDON: That has no relation to the construction of the line but it certainly has a relationship as to whether there is service over that line.

Mr. FISHER: What is the result of these negotiations with Canada and Gulf?

Mr. GORDON: We have not got anywhere with them. There have been no further discussions. Colonel Billant was supposed to consider this and make a proposal but we have heard nothing from him.

Mr. FISHER: In 1955, Mr. Gordon, when you were before this committee you said that it was a policy of the C.N.R. with regard to branch lines, to put it in a nutshell, to insist upon a traffic guarantee.

Mr. GORDON: Yes.

Mr. FISHER: Could you review the situation for us with regard to the branch line from Ste. Anne des Monts to Matane, or from Matane to Ste. Anne des Monts?

Mr. McDONALD (*Hamilton South*): Could I just ask a question, Mr. Chairman? Was this rail line construction paid out of the government treasury?

Mr. GORDON: To which rail line are you referring?

Mr. McDONALD (*Hamilton South*): I am referring to the one about which Mr. Fisher is talking.

Mr. GORDON: There is no rail construction involved in that case. Let me review the circumstances.

Over the years as far back as I can remember there have been representations made in respect of the possibility of a railway line down through the Gaspé to Matane. On every occasion we were asked to review it both by the present administration and the previous administration we advised that we could see no economic justification for such a line. It was viewed strictly as a railway proposition and, following an analysis of any potential traffic that we could expect, we advised accordingly, that left to ourselves we could not justify the building of that line on economic grounds.

Now, subsequent to that the government presented a bill covering the authorization of the construction of and operation, and they stated the reasons why they felt a line should be built. They asked the C.N.R. as their agents to proceed with such negotiations as may be necessary and advise them as to how a line could be constructed. There are two things involved in this regard.

Before a line of railway is possible we would have to have running rights agreements with Canada and Gulf to bridge the gap from the end of the C.N.R. line to the new point of construction. Failing that we would have to buy the railway.

These are the negotiations that, as I said, we have had but they have come to nothing. In the meantime we have again, acting as agents of the government, made a location survey of the line. I have not got a report yet although I expect it any day. The location survey was completed ten days or a couple of weeks ago and it will then reveal to us the factors that will be involved in constructing the line. I will then make a report to the government on the basis of that survey and ask the government for further instruction as their agent.

Mr. FISHER: Could I ask you whether the suggestion has been put forward that the government should purchase it?

Mr. SMITH (*Simcoe North*): I am not so certain this is within the scope of the committee's work. This railway has been built, or will be built. We are here to cover the operations of the C.N.R. for the year 1961 and the budget for the year 1962. It seems to me that there is no relevancy to this particular line of questioning.

Mr. FISHER: If Mr. Smith is raising this as a point of order, I want to speak to it. I want to argue that the relevancy is that it is our duty to examine the entire operations of the C.N.R. Here we have a situation where the C.N.R.

has examined—as Mr. Gordon indicates—the economics of this branch line, and the C.N.R. decided against it.

Mr. SMITH (*Simcoe North*): I would like to see the item in the budget or in the report before us. I would like to have my attention directed to how he can establish the relevancy. His point may have some merit, but now there is absolutely nothing that he has said that shows why we should be dealing with it in this committee at this time.

Mr. FISHER: Question 342 that I placed on the order paper last year.

Mr. SMITH (*Simcoe North*): We are not questioning the order paper.

Mr. FISHER: I do not care what you are questioning. I want to point out to you that I have had answers relating to this Canada and Gulf Terminal Railway and the whole matter of the St. Anne des Monts-Matane Railway, and if this is not the place to ask questions about the C.N.R.'s role, there is no other place.

Mr. SMITH (*Simcoe North*): Perhaps next year, not this year. Direct us to the item in the report or the item in the budget that gives any of us any right to question it.

Mr. FISHER: The very fact that Mr. Gordon acknowledges that over the past couple of years the C.N.R. has done some work is sufficient reason. They have carried out a location survey, for example. This is a branch line.

Mr. SMITH (*Simcoe North*): In which year was the location carried out?

Mr. GORDON: This year. It has nothing to do with 1961.

Mr. ENGLISH: Mr. Chairman, if you intend to let this discussion go on, it is going to be a very long discussion.

The CHAIRMAN: I can read you the minister's statement which answers everything that you are asking. While it may not be relevant to the committee's procedure, it is taking up the time of the committee.

Mr. CHEVRIER: Is there any objection to giving the information which Mr. Fisher asked for? Has the minister any objection, I would like to know.

Mr. BALCER: We gave all those answers in the house at the time of the bill. The bill was reviewed in committee, it was discussed at length, and it was all done for 1962. This present committee, as I understand it, is to study the budget of the C.N.R. and also the report of 1961. This matter has nothing to do with what is going on here. Next year you will go through it.

Mr. GORDON: In any event, Mr. Chairman, I have told Mr. Fisher all I know about it right now, so you have all the information from me.

Mr. CHEVRIER: I am not sure that that is the case. However, I would like to ask the minister a question. The president of the C.N.R. said a moment ago that there are two things involved here: one had to do with the running rights with the Canada and Gulf Terminal, and he has not been successful in negotiating those rights. Did you not tell us, Mr. Minister, in the house that there were running rights and that the government could exercise those running rights at any time it wanted to when those questions were put to you by me? I would like to get this straightened out as between the president and the minister.

Mr. BALCER: We still have these running rights because when we gave them a subsidy it was in the agreement with Canada and Gulf. It is an old agreement, and I do not remember its date. When I told you that the government had running rights, I was right.

Mr. CHEVRIER: I am not contesting that fact. What I am interested in knowing is why the president would say one thing and you would say the other thing in the house. I think perhaps that should be cleared up for the benefit of the committee.

Mr. BALCER: The discussions for implementing these running rights have not been carried to a conclusion.

Mr. CHEVRIER: If I understand the situation it is that the president was not successful in negotiating the running rights over the Canada and Gulf Terminal with its owners. Is it the intention of the government to proceed under the terms of the agreement and expropriate it?

Mr. BALCER: The information of the legal officers of the department at that time—I am speaking from memory—was that they felt that we had the legal rights and that we could go before the board of transport commissioners and have these rights confirmed. The Gulf and Terminal Railway would be forced by the board of transport commissioners to let us use their rail line.

Mr. CHEVRIER: That does not answer my question, Mr. Chairman.

Mr. BALCER: As Mr. Gordon says, as far as the price is concerned, it would have to be determined.

Mr. CHEVRIER: If I understand this correctly, if the C.N.R. is not successful in negotiating the running rights, then you intend to expropriate, or the government intends to expropriate.

Mr. BALCER: No, we intend to discuss with them and we will try to come to an agreement as far as the amount of money that we have paid Canada and Gulf Terminal is concerned.

Mr. CARTER: You have the power to expropriate if you want to. It is a matter of your decision, is it not?

Mr. BALCER: Yes.

Mr. CARTER: But you do not want to take the action if you can avoid it?

Mr. BALCER: Yes, that is my recollection.

Mr. FISHER: With regard to the location survey that Mr. Gordon mentioned, you have not got this at the present time, but do I take from the way you expressed it that there is still some question about, for example the cost, the engineering problems and these sorts of matters?

Mr. GORDON: We have not got the report yet. As I say, the location survey was not completed and it will depend on what that location survey will reveal as to what report I will be able to make to the Minister of Transport. On the basis of that report he will have to make up his mind as to what the next step is going to be.

Mr. FISHER: One further question—it is the last one—is it contemplated that a separate bookkeeping and a separate entry will be made for this particular project when you as government agents are finally operative?

Mr. GORDON: That is my understanding, and I also understand there would be a management fee payable to the Canadian National Railways.

Mr. FISHER: Do you recover a fee in the same year in which you carry out something like a location survey for the government?

Mr. GORDON: No, not normally. We would do a location survey of this kind for the government on the basis of recovering our out of pocket costs.

Mr. BALCER: Mr. Fisher; you have asked word for word, the same questions before—before the railways, canals and telegraph lines committee, when you got the same answers, and you got the same thing in the House of Commons. You are just wasting the time of the committee.

Mr. FISHER: I wanted to know if Mr. Gordon considered, or if the railway considered that this was an uneconomic proposition.

Mr. BALCER: We told you so last year; we told you it was the opinion of the Canadian National Railways, and that is why we were undertaking it as a matter of national policy.

Mr. FISHER: I understand all that.

The CHAIRMAN: You just wanted to have it re-emphasized.

Mr. FISHER: The president emphasized that the McPherson's commission report be accepted, although it had some very strong things to say about branch line construction.

Mr. BALZER: And the McPherson commission report also said that if the government felt a certain railway should be built, and it was a long term proposal and was uneconomic for the first years, then the railway should not be saddled with the expenditure, but that the government should compensate the railway; and that is exactly what we are doing in this case.

Mr. FAIRWEATHER: And that is what the railway commissioners had in mind, too.

Mr. LAMOUREUX: Has Mr. Gordon any idea when his report will be submitted to the government?

Mr. GORDON: It all depends when I get through with this committee. To start with, when I go back to my desk I expect to find the report there. I was talking only yesterday with the man in charge of the matter, and he hoped to have it in my hands in the course of next week or so. So I would say it would be within two or three weeks, perhaps. There is no more work to be done anyway, because the winter season is upon us, and that is as far as we can get for this year.

Mr. PUGH: May I ask if the Pine Point railway is up to schedule?

Mr. GORDON: I answered that question a moment ago and gave the percentages on it.

Mr. PUGH: I am sorry.

Mr. FISHER: I would like to ask the president some questions relating to the line that the Canadian National Railways has to serve the potash development at Esterhazy. My first question is this: have you been unable to supply this particular line with satisfactory service?

Mr. GORDON: We have been able to supply them with satisfactory service and we have been complimented on it.

Mr. FISHER: Have you had—or have you projected a shortage of hopper cars to supply them with their needs?

Mr. GORDON: We see no shortage of hopper cars. In fact we made a very considerable investment for the purpose of serving this particular venture.

Mr. FISHER: Was there any particular reason why your railway did not have any representative present at the meeting of the committee on railways canals and telegraph lines when it was dealing with the application of the Canadian Pacific Railway to run a branch line into that particular development?

Mr. GORDON: There were a number of reasons; one was that we were not invited to attend; it was a private member's bill affecting the Canadian Pacific Railway and one of our customers. International Minerals is a very important customer of the Canadian National Railways and I did not feel it was wise for us to intervene in the discussion without an invitation to do so and thereby appear to be trying to stop this valuable customer from obtaining a secondary service for which they had already given evidence that they wanted to get.

Mr. FISHER: After the committee, a statement was made by the chairman which is to be found at page 17 of committee report number one and which reads as follows:

The CHAIRMAN: Order. In answer to Mr. McCleave I might state that there has not been a representation made by the officials of the C.N.R. in respect of appearing before this committee in opposition to the bill.

I take it from your previous answer that you had considered coming before this committee but without an invitation and because of your relationship with the customer you felt it would be wise not to do so.

Mr. GORDON: That is right. We would have more or less forced ourselves on the committee by asking for permission to intervene in something which affected the Canadian Pacific and International Minerals, and, moreover, we were not asked to appear before the committee.

Mr. FISHER: But if you had been asked by the committee to appear, would you have done so?

Mr. GORDON: That is in the realm of conjecture, but I do not think we have ever refused to appear before a committee.

Mr. FISHER: The question was put to the committee and turned down.

Mr. GORDON: What was that again, please?

Mr. FISHER: I said that the matter was put to the committee and turned down by the committee that you should be asked.

Mr. GORDON: You mean whether we would be asked or not; I see.

Mr. FISHER: Is this a remunerative arrangement that you have at the present time with this particular company?

Mr. GORDON: Oh, yes.

Mr. FISHER: Is the entry of the Canadian Pacific Railway into this potash field going to have an adverse affect on the income which you are now receiving from this project?

Mr. GORDON: It will have an adverse affect on the income that we expect to receive in terms of the development of the mineral operation, yes. In other words, we have had an exclusive position dating from 1957 when we first built into the mining plant and provided service; we have had an exclusive position; whereas now with the entry of the Canadian Pacific line, it will of course be a matter of two railways servicing it, and we will be in competition.

Mr. FISHER: What efforts did you make in order to retain your exclusive position there?

Mr. GORDON: Well, we made representations to the Canadian Pacific Railway to the effect that we felt that duplication of the line was not necessary, and we made an offer to them which we thought was reasonable, that would have the effect of turning over to the Canadian Pacific Railway at the nearest exchange point such amount of traffic as they might feel entitled to by reason of their relationship with the company.

Mr. FISHER: Did you at any time approach the Minister of Transport with the suggestion that he examine this particular problem and the adverse effect it might have on the revenues which you were receiving?

Mr. GORDON: No, I did not.

Mr. FISHER: But did you consider approaching him?

Mr. GORDON: I considered approaching him but I came to the same conclusion that it would appear to be a lobby on our part to interfere with the wishes of a very valued customer, and we did not want to get ourselves into the position of appearing to stage a fight which would have the effect of preventing this valued customer from carrying out his own desires. There is still a lot of business to be obtained. You must remember that the percentage of business in this development here has not been totally decided upon, and while there is a commitment at this time as to the minimum of traffic, there is still far more traffic which will become available and which we can get on the basis of providing good service. We are quite confident of our ability to fill any such demands in terms of good service and good relations with our customers, and our ability

to supply cars, so that we can get a good share of the business. I did not want to take the risk of breaching our relationship with them and appearing to be in opposition to something which they had declared their wish to obtain.

Mr. FISHER: Among the reasons given to us for the provision of this second line was the fact that wash-outs or other accidents, should they occur, and with only one line in existence, that it might disrupt the flow of materials from that development to the market. Was this consideration ever brought forward to you?

Mr. GORDON: It was never discussed with us. If it had been, we would have thought it was a very farfetched argument, but a perfectly legitimate one in terms of a competitor trying to get business. We felt then, and we still feel, that we can compete with the handling to the complete satisfaction of the customer, of the potash shipments originating at Yarbo, and we are supported in our belief by the fact that the Santa Fe Railroad, which is the only railroad serving the large potash mine at Carlsbad in New Mexico, handles over 3 million tons of potash annually. At Yarbo the capacity is 1.2 million tons.

Mr. FISHER: I just want to express bitter disappointment that we did not have the opportunity of having this information; but that is aside from the point. Amongst the evidence which came out was the suggestion by this particular company that they would probably have a market and would like to ship eastward at the lakehead, but at the present time there are no facilities at the lakehead for convenient and cheap transshipment particularly by water. I would like to ask you whether you have had negotiations in the last several years with this company from the point of view of providing them with transshipping facilities.

Mr. GORDON: I do not remember this particular point, but our relationship with this company has always been on the basis that any reasonable facilities they thought they needed for marketing their potash would be provided by us happily.

Mr. FISHER: The representative of this company stated to us that he had visited the facilities at the lakehead and much admired the ore dock but he did not think that conversion was possible. I do not know whether it was because of the expense or what. I would like to ask you whether you would consider looking at this matter again from the point of view of seeing whether you can do anything.

Mr. GORDON: Of course the official of the company is entitled to express his views as to what he thinks of the possibilities in respect of the facilities that might be made available by us. I do not want to get into an argument with him. All I can say is that if the company has asked us for any facilities that we indicated we were unable to provide, I know nothing of it, and I am quite certain I would have been informed if that had arisen.

Mr. FISHER: Is it fair to say that the C.N.R.—

Mr. GORDON: Wait a minute. You say here in the evidence before the Standing Committee:

Did you approach the Canadian National Railways' officials in respect of the cost of covering some of the hoppers at Fort William?

And Mr. Knorst replied:

No, sir, I did not. The cost would be tremendous in this regard. The hoppers were built for iron ore shipments and to adapt them to the shipping of potash would be so great as to make it inconceivable. There is also a difficulty arising as a result of the short navigation season.

That is his opinion, and he is entitled to that opinion, but the specific point he mentions was never discussed with us.

Mr. FISHER: Could this be opened up? Is it fair to say that there is considerable disappointment on the part of the Canadian National Railways of the fact that you now have a competitor?

Mr. GORDON: Yes.

The CHAIRMAN: Are there any further questions?

Mr. LAMOUREUX: I assume you had the usual agreement providing for minimum quantities with the potash company.

Mr. GORDON: Yes.

Mr. LAMOUREUX: Is it limited as to time or is it to continue in existence so long as you are there and so long as the company produces.

Mr. GORDON: I do not recall that, but in any event I think it was pretty well talked out in the committee hearing, and I do not think we should be expected to discuss the details of the agreement.

Mr. LAMOUREUX: I appreciate that, but I have the same concern as Mr. Fisher that if this agreement is limited to time, you may find at that time you may not be providing the primary service but rather the secondary service. This is a word which I think you used a moment ago. I believe you said that you were disappointed in having a secondary service going in there. Do you consider that you are the primary service at the moment?

Mr. GORDON: Yes. We still consider that our relations with the company are such that we will receive fair treatment. We have been in there since 1957 and provided them with a spur line in 1957. At the time when they built their plant we got all the inbound traffic. The line was established by us for the purpose of this development. We have also had very considerable expenditures in terms of 200 aluminum covered hopper cars which we acquired at a cost of \$3,700,000, especially for this development. We also have another 100 steel covered hopper cars at a cost of \$1,400,000. We know this company will recognize that we purchased this equipment in good faith for the purpose of servicing them.

Mr. LAMOUREUX: I suppose the C.P.R. is spending the same amount of money now.

Mr. GORDON: I do not know what they are doing. All I know is that they had the line built before it came before the committee.

Mr. LAMOUREUX: We objected to that.

Mr. FISHER: I think this has been a disgrace, but not on the part of the C.N.R. I think the whole development has been a disgrace.

Mr. LAMOUREUX: Yes. I feel the same way.

The CHAIRMAN: Shall we pass this item? The next item is general outlook.

Mr. FISHER: I have some questions in connection with real estate.

The CHAIRMAN: I thought you said you posed your last question.

Mr. FISHER: That was on branch lines.

The CHAIRMAN: We have been off that.

Mr. FISHER: No, we have been on branch lines.

I wanted to ask Mr. Gordon some questions in relation to real estate. You have been making an effort I understand, with some considerable degree, in order to get many of your real estate holdings going or activated in various parts of Canada, and I want to ask a local question. What progress have you made in the lakehead area in regard to real estate holdings? Is there any relaxation or disposal under consideration?

Mr. GORDON: We have no specific projects in hand for that area at the moment; however, it is well known in real estate circles what property might be available, and we will be prepared to act when we have any approaches in that respect. We have inserted advertisements across Canada indicating we have surplus property, and notifying developers in connection with these properties.

Mr. FISHER: Have there been any representations from the lakehead harbour commission in connection with the property you hold on the waterfront with regard to turning it over or putting it in their hands.

Mr. VAUGHAN: I do not know of any.

Mr. GORDON: I do not recall, but I would not say no because there are some details I cannot remember.

Mr. FISHER: What is the situation in Winnipeg with regard to real estate that has become available as a result of the Symington yard?

Mr. GORDON: There is considerable discussion going on in that connection and we are having talks with the city officials in regard to their interests.

Mr. FISHER: But you are not in a position—

Mr. GORDON: There is nothing definite at all.

Mr. FISHER: Insofar as the Toronto situation is concerned have you anything to add other than what you have said already?

Mr. GORDON: No. Everything is in the discussion stage. These things take a lot of talk; then it catches fire and away it goes. However, there is nothing definite.

Mr. FISHER: Is it possible you may be able to make substantial sums of money out of the disposal of any of these properties?

Mr. GORDON: I hope so.

Mr. FISHER: If you do what do you plan to do with those funds? Have you anything in mind?

Mr. GORDON: We plan to keep them. But, specifically, it depends on what amounts are involved. If there were large capital sums and we were not in immediate need of them—I mean if we required them for our current capital budget that would be one thing but, if it is a true surplus we would use it to reduce our debt.

Mr. FISHER: Have you found in the developments that have taken place so far that you have needed to make adjustments in the values that you now have placed on some of these properties.

Mr. GORDON: We have not done anything of that sort.

Mr. RIDEOUT: Mr. Chairman, perhaps we should adjourn. It is now 10 o'clock.

Mr. SMITH (*Simcoe North*): Mr. Chairman, the House of Commons sits tomorrow at 11 o'clock so if we commence at 10 o'clock we will have a short sitting.

Mr. RIDEOUT: Do you feel that there might be an advantage in postponing our sitting tomorrow until 1:30 p.m. in an attempt to clean it up at that time?

The CHAIRMAN: Would you consider sitting a little later tonight to finish it up?

Mr. LAMOUREUX: I do not think that would be fair, Mr. Chairman.

The CHAIRMAN: I have kept track of the time we have sat. We have only sat a couple of hours. I notice there are quite a few members here who have not said very much.

Mr. PUGH: Do you wish us to say more?

The CHAIRMAN: Mr. Fisher, you must be getting weary because you have used 69 minutes of the two hours.

Mr. FISHER: Never mind making invidious statements, Mr. Chairman. I have just been trying to live up to my obligations.

The CHAIRMAN: You certainly have lived up to your reputation. You have used 69 minutes of the two hours. Some of the other members may have questions they wish to ask. Perhaps you could rest for a while and let them ask some questions.

Mr. FISHER: The agreement was that we would stop at 10 o'clock. Why push this thing further than that?

Mr. OUELLET: I should just like to express an opinion. Some members of this committee are not present at this time. Perhaps if they knew that arrangements were to be made to stay later than 10 o'clock tonight they would have arranged to be here.

Mr. McDONALD (*Hamilton South*): Some members might have thought we would finish tonight.

Mr. FISHER: Someone moved that we adjourn and I second the motion.

Mr. PUGH: It is now after 10 o'clock, Mr. Chairman.

Mr. SMITH (*Simcoe North*): You may go and we will still have a quorum.

Mr. FISHER: Perhaps you better wait and see if you do have a quorum.

Mr. GORDON: I wonder if I might invoke the rules of the S.P.C.A. in my own behalf?

Mr. SMITH (*Simcoe North*): Mr. Chairman, it is obvious that we could not finish tonight having regard to Mr. Fisher's attitude, so we should adjourn until some acceptable time tomorrow. We do not wish to have a filibuster.

The CHAIRMAN: I do not suppose there is a guarantee that we will finish tomorrow.

Some members of this committee will perhaps pursue these questions indefinitely tomorrow, but if you do not wish to conclude these hearings tomorrow then I expect we will not conclude them. It does seem to me that we have covered a very wide range up to this time, and the president of the railway has been most cooperative in giving exhaustive information in respect to the questions asked.

We will now adjourn until 10 o'clock tomorrow morning and reconvene in this room.

EVIDENCE

FRIDAY, November 23, 1962.

The CHAIRMAN: I am sorry we were delayed. I guess you all went to the other room, as I did. There was a little misunderstanding.

We will now proceed to "Other Developments". Have you anything further on "Developments"?

Mr. FISHER: I raised the question early last night about this business of the graphic arts industries association's strong objections to the proposal of the C.N.R. to purchase and install equipment in Winnipeg in order to print the railway cards which are now being printed by some four Winnipeg printing firms and who carry out other printing as well. This has caused a bit of a tempest in Winnipeg, according to the newspaper comments. We have had answers in the house through the minister in relation to this question which have indicated that C.N.R. intends to press ahead with this. Could I ask Mr. Gordon what seems to be involved here and whether the railway is completely convinced that it can get a more economical and a better service from its own equipment than it can from using those outside printers.

Mr. GORDON: Mr. Chairman, as Mr. Fisher himself has said, the question has been answered in the house, and I have nothing further to add to the answer already made.

Mr. FISHER: Let us put it very succinctly then. You have no intention of changing your mind on the proposal?

Mr. GORDON: I have made my answer, Mr. Chairman.

The CHAIRMAN: Any further questions on "Other Developments"?

Shall we pass then and go on to "The Outlook"?

Mr. FISHER: I have one question which I wanted to ask on the C.N. and C.P. We have decided in this committee several times that it should be recommended that greater consultation and cooperation exist between the two railways. I have not quite figured out just how many cooperative measures are taken and whether there is anything alive at the present time which is an extension of this field of cooperation. Perhaps Mr. Gordon could indicate to us what we have under review this year, what cooperative measures were investigated and made complete and which ones were disposed of.

Mr. GORDON: Mr. Chairman, I have nothing further to add to the statement made in the report.

Mr. FISHER: In other words, there is nothing you can tell us about what you explored in these discussions?

Mr. GORDON: I have no specific report to make apart from the general statement that there were discussions.

The CHAIRMAN: Do you wish me to read again this "Outlook"? Shall we take it as read, before we go on to the financial statement?

Mr. BEAULE: I have a question on the financial statement. I understand the C.N.R. is constructing a building in Quebec City. Do you think there will be enough room to centralize all the offices?

Mr. GORDON: It has been very carefully studied by our officers there, and it is on the basis of the recommendations of our local officers that the building will be undertaken.

Mr. BEAULE: Do you think this building is in the right place?

Mr. GORDON: We have had a lot of discussions with provincial officials in that respect, with the historical association and so forth, and it is agreed now that the plan is quite acceptable.

Mr. FISHER: I would just like to ask Mr. Gordon if he feels that he has covered in his statement to this committee all the hopeful signs which are referred to in his annual report.

There are, however, some hopeful signs which could lead to an opportunity for the system to bring a break-even position within its reach.

Mr. GORDON: Yes.

Mr. FISHER: Have you any more hopeful signs at all?

Mr. GORDON: I have answered your question.

The CHAIRMAN: Shall we proceed then with the financial and statistical statements? You have a summary of the companies included in the Canadian National system, and the balance sheet. Will you take these as read?

It is moved by Mr. Rideout and seconded by Mr. Lamoureux that this can be taken as read.

I presume you will add to that:

To be printed in both English and French.

Motion agreed to.

The next item is the budget. I would like to ask the president—

Mr. FISHER: We have not had the auditor yet.

Mr. GORDON: The usual procedure is that we go through with the budget, and when that is completed the auditor is then called.

Mr. CARTER: Are we on the budget now, Mr. Chairman?

The CHAIRMAN: We are finished with the report. It does not make much difference, Mr. Fisher. It has been customary to take the budget and then call the auditor.

The budget follows:

CANADIAN NATIONAL RAILWAYS

Capital Budget—Year 1962

	Page	1962 proposals	Cost to Complete Projects Authorized in Prior Years	Total	1962 Proposed Expendi- tures	1961 Budget
		(000)	(000)	(000)	(000)	(000)
ROAD PROPERTY						
New Lines, Diversions and Abandonments.....		\$ 235	\$ 33,872	\$ 34,107	\$ 12,307	\$ 5,693
Roadway Improvements.....		36,465	1,927	38,392	37,648	39,920
Large Terminals.....		722	31,571	32,293	10,993	16,778
Yard Tracks and Sidings.....		1,070	146	1,216	1,216	1,043
Buildings.....		1,299	4,367	5,666	4,359	11,947
Highway Crossing Protection..		232	83	315	314	420
Signals.....		2,284	4,728	7,012	4,286	2,876
Roadway and Shop Machinery.		1,847	406	2,253	1,759	1,811
General.....		14,095	5,278	19,373	19,359	22,731
Telecommunication Facilities...		22,869	10,352	33,221	14,136	19,516
Road Property—Total.....	3	81,118	92,730	173,848	106,377	122,735
BRANCH LINES.....	4	2,000	9,541	11,541	8,435	14,599
HOTELS.....	5	1,429	363	1,792	1,481	1,732
EQUIPMENT.....	6	12,686	17,130	29,816	29,816	14,212
		97,233	119,764	216,997	146,109	153,278
INVESTMENT IN AFFILIATED COM- PANIES.....	7	591	.....	591	591	5,922
		97,824	119,764	217,588	146,700	159,200
Less—Uncompleted Work.....		.....	.....	.....	14,000	16,000
TOTAL—CAPITAL BUDGET.....		\$ 97,824	\$119,764	\$217,588	\$132,700	\$143,200
Amounts required for refunding and/or retirement of maturing securities.....	8				\$50,891	

CANADIAN NATIONAL RAILWAYS

STATEMENT OF FINANCING AUTHORITY REQUIRED WITH RESPECT TO CAPITAL BUDGET

(000)

YEAR 1962

GROSS CAPITAL EXPENDITURES

Road Property.....		\$106,377	
Branch Lines—Specific.....	\$6,435		
—Contingent.....	2,000		
		8,435	
Hotels.....		1,481	
Equipment.....		29,816	
		146,109	
Investment in Affiliated Companies.....		591	
		146,700	
Less: Uncompleted Work.....		14,000	
			<u>\$132,700</u>

TOTAL CAPITAL BUDGET

SOURCE OF FUNDS

Depreciation Accruals, etc.....		\$110,800	
Issue of Securities:			
Preferred Stock.....		22,100	
Borrowings—Mattagami Branch Line.....	\$5,500		
—Contingent (Branch Lines).....	2,000		
		7,500	
			<u>\$140,400</u>

JANUARY 1, 1963 TO JUNE 30, 1963

Interim financing authority required with respect to Capital Expenditures authorized in 1962 and prior years.

GROSS CAPITAL EXPENDITURES

Property and Equipment.....	\$ 63,000	
Mattagami Branch Line.....	2,000	
		<u>\$ 65,000</u>

SOURCE OF FUNDS

Depreciation Accruals, etc.....	\$ 55,000	
Issue of Securities:		
Preferred Stock.....	11,000	
Borrowings—Mattagami Branch Line.....	2,000	
		<u>\$ 68,000</u>

COMMITMENT AUTHORITY REQUESTED

Authority is requested to enter into contracts prior to the first day of July 1963 for the acquisition of new equipment and to make general additions and conversions that will come in course of payment after the calendar year 1962 in amounts not exceeding in the aggregate....

\$ 45,000

EXISTING FINANCING AUTHORITY

Financing authority exists under CANADIAN NATIONAL FINANCING AND GUARANTEE ACT, 1961, SECTION 3 (1) (b) for an amount of \$76,000,000 made up of \$66,000,000 for Road and Equipment and \$10,000,000 for advances to Trans-Canada Air Lines.

CANADIAN NATIONAL RAILWAYS
SUMMARY OF ROAD PROPERTY CAPITAL BUDGET PROJECTS
TOTAL OF 1962 PROPOSALS AND COST TO COMPLETE PROJECTS APPROVED IN PRIOR YEARS

	Atlantic Region		St. Lawrence Region	Great Lakes Region	Prairie Region	Mountain Region	Grand Trunk Western	Central Vermont Railway	Others	TOTAL
	Maritime -Chaleur Areas	Newfoundland Area								
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
New Lines, Diversions and Abandonments.....	146,000	.....	5,000	33,746,000	.....	210,000	.....	.....	.....	34,107,000
Roadway Improvements.....	3,901,500	2,119,800	4,141,400	5,148,500	10,130,500	12,248,400	121,000	581,100	.....	38,392,200
Large Terminals.....	800,000	1,347,000	1,038,000	26,500,000	2,608,000	.....	.....	.....	.....	32,293,000
Yard Tracks and Sidings.....	144,000	20,000	111,000	75,000	52,200	763,400	50,000	.....	.....	1,215,600
Buildings.....	625,600	198,000	4,185,500	71,900	191,200	323,900	60,000	10,000	.....	5,666,100
Highway Crossing Protection.....	.....	.....	224,300	15,000	12,800	.....	62,300	.....	.....	314,400
Signals.....	1,800,000	.....	.....	1,216,000	1,870,000	2,100,300	25,900	.....	.....	7,012,200
Roadway and Shop Machinery.....	366,900	87,600	278,200	147,800	309,900	871,500	86,200	105,000	.....	2,253,100
General.....	292,300	289,100	1,267,200	990,600	695,100	1,100,400	198,700	40,200	14,500,400	19,374,000
Telecommunications.....	.....	.....	.....	.....	.....	.....	.....	.....	33,220,900	33,220,900
Road Property—Total.....	8,076,300	4,061,500	11,250,600	67,910,800	15,869,700	17,617,900	604,100	736,300	47,721,300	173,848,500
Proposed Expenditures—1962.....	6,582,300	3,486,500	9,243,600	25,252,400	15,856,200	16,006,900	601,400	711,300	28,636,300	106,376,900

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1962

BRANCH LINE CONSTRUCTION

Construction of the following new branch lines authorized as follows:

	Authorization	Mileage	Estimated Expenditures
			\$
Mattagami.....	Chapter 7, 1960-61	60.0	9,660,000
Sipiwesk—Thompson.....	Chapter 13, 1957	30.0	5,400,000
Optic Lake—Chisel Lake.....	Chapter 13, 1957	52.0	10,166,000

	Authorized Expenditures		Expenditures to end of 1961	Balance	1962 Proposed Expenditures
	Total	Capital			
	\$	\$	\$	\$	\$
Mattagami.....	9,660,000	9,660,000	1,244,000	8,416,000	5,500,000
Sipiwesk—Thompson.....	4,500,000	4,500,000	4,314,000	186,000	35,000
Optic Lake—Chisel Lake.....	10,166,000	10,166,000	6,247,000	3,919,000	.....
Extension to Stall Lake*.....					900,000
	24,326,000	24,326,000	11,805,000	12,521,000	6,435,000
Contingent.....					2,000,000
					8,435,000

*Proposed extension from Chisel Lake to Stall Lake—subject to further authority.

Estimated Mileage 8

Total Estimated Expenditures..... \$ 1,090,000

CANADIAN NATIONAL RAILWAYS
CAPITAL BUDGET—YEAR 1962
HOTELS

	1962 Proposals	Cost to complete projects authorized in prior years	Total	1962 Proposed Expend- itures
	\$	\$	\$	\$
"Newfoundland"—St. John's, Nfld.....	98,000	.....	98,000	98,000
"Nova Scotian"—Halifax, N.S.....	7,000	100,000	107,000	107,000
"Charlottetown"—Charlottetown, P.E.I....	19,000	.....	19,000	19,000
"Chateau Laurier"—Ottawa, Ont.....	149,500	.....	149,500	149,500
"Fort Garry"—Winnipeg, Man.....	150,000	27,000	177,000	177,000
"Bessborough"—Saskatoon, Sask.....	128,000	.....	128,000	128,000
"Macdonald"—Edmonton, Alta.....	71,400	13,000	84,400	84,400
"Jasper Park Lodge"—Jasper, Alta.....	560,000	223,100	783,100	472,100
Sundry—Small Projects.....	246,000	.....	246,000	246,000
	1,428,900	363,100	1,792,000	1,481,000

CANADIAN NATIONAL RAILWAYS
CAPITAL BUDGET—YEAR 1962
EQUIPMENT

	1962 Proposals	Cost to complete projects authorized in prior years	Total	1962 Proposed Expenditures
	\$	\$	\$	\$
ROLLING STOCK— Authority is requested for the financing of the undernoted equipment, the order- ing of which was authorized in Financing and Guarantee Acts in prior years.....	.....	16,000,000	16,000,000	16,000,000
1,065 Freight Cars				
Authority is requested for the ordering of equipment estimated to cost.....	8,255,000	.....	8,255,000	8,255,000
655 Freight Cars				
1 Work Equipment Unit				
656				
	8,255,000	16,000,000	24,255,000	24,255,000
ADDITIONS, CONVERSIONS AND HIGHWAY VEHICLES, MISC.....	4,431,100	1,129,700	5,560,800	5,560,800
TOTAL—EQUIPMENT.....	12,686,100	17,129,700	29,815,800	29,815,800

Commitment Authority Requested

Authority is requested for the ordering of Rolling Stock, estimated to cost \$18,000,000.
This amount is included in the commitment authorizations amounting to \$45,000,000.

NOTE: The particulars of the equipment required as indicated may be revised as to numbers and classes,
but the total cost will not exceed the amount of the authorizations requested above.

CANADIAN NATIONAL RAILWAYS
CAPITAL BUDGET—YEAR 1962
INVESTMENT IN AFFILIATED COMPANIES

	1962 Proposed Expenditures
	\$
<i>Toronto Terminals Railway Company</i>	
Estimated requirements—\$30,000 C.N.R. proportion—50%.....	15,000
<i>Northern Alberta Railways</i>	
Estimated requirements—\$364,600 C.N.R. proportion—50%.....	182,300
<i>Chicago and Western Indiana Railroad</i>	
Advances under Agreements March 31, 1926 and May 1, 1952.....	394,000
TOTAL—C.N.R.....	591,300
<i>Trans-Canada Air Lines—Financial Requirements</i>	
Advances in respect of Capital Expenditures.....	9,800,000

CANADIAN NATIONAL RAILWAYS

Retirements and Refundings
Year ending December 31, 1962

Refunding of Outstanding Securities

Due Date

1962

1 Jan.	Grand Trunk Pacific Railway Company 3% First Mortgage Sterling Bonds.....	\$26,465,130	
1 Jan.	Grand Trunk Pacific Railway Company 4% Sterling Bonds.	7,999,074	\$34,464,204

Above issues are payable in Sterling or at option of the holder in Canadian or United States funds at the fixed rate of exchange of \$4.86 to £1.

Estimated Purchase Fund Acquisitions

(Maximum Expenditure)

Canadian National Railway Company 5½% Bonds, due December 15, 1954.....	\$ 3,940,000	
Canadian National Railway Company 4½% Bonds, due April 1, 1967...	2,970,000	
Canadian National Railway Company 5% Bonds, due May 15, 1968....	2,370,000	
Canadian National Railway Company 5% Bonds, due May 15, 1977....	1,764,000	
Canadian National Railway Company 5½% Bonds, due January 1, 1985.	1,970,000	
Canadian National Railway Company 5% Bonds, due October 1, 1987..	3,412,500	16,426,500
TOTAL.....		\$50,890,704
(Say).....		\$50,891,000

The maximum expenditures will be incurred only if market prices of the above issues are equal to or less than the original issue prices.

CANADIAN NATIONAL RAILWAYS

Operating Budget—Year 1962

	1962 Budget	1961 Actual
	(000)	(000)
Railway Operating Revenues.....	\$ 705,900	\$ 682,405
Interim Payments—1961.....	1,100	27,900
*Interim Payments—1962.....	29,000	.....
	736,000	710,305
Railway Operating Expenses		
Maintenance		
Road.....	170,400	166,740
Equipment.....	150,100	147,654
	320,500	314,394
Transportation.....	306,800	311,629
	627,300	626,023
Traffic.....	16,700	16,399
Miscellaneous Operations.....	5,900	6,370
General.....	57,100	53,294
	707,000	702,086
Net Revenue from Railway Operations.....	29,000	8,219
Taxes and Rents.....	22,800	20,062
Net Railway Operating Profit or (Loss).....	6,200	(11,843)
Other Income.....	7,700	7,011
Surplus or (Deficit) before Fixed Charges.....	13,900	(4,832)
Total Fixed Charges.....	73,500	72,987
Less—T.C.A.....	11,300	10,511
Net Fixed Charges.....	62,200	62,476
Deficit.....	\$ 48,300	\$ 67,308

NOTE: The 1962 Operating Forecast is based on 1961 material prices, wage rates and freight rates.

*The budget assumes similar receipts during 1962 as those accruing for 1961 relating to the recommendations of the Royal Commission on Transportation.

TRANS-CANADA AIR LINES

(Presented for inclusion in the Financing and Guarantee Act)

1962	Proposed Net Expenditures—To Be Borrowed.....	\$ 9,800,000
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January 1, 1963 to June 30, 1963

Interim financing authority required with respect to Capital Expenditures authorized in 1962 and prior years.....	\$16,000,000
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NOTE: T.C.A. requirements for capital funds are not financed from C.N.R. self-generated funds (accruing from depreciation, etc. and the sale of preferred stock) but are met through borrowings authorized by the Financing and Guarantee Act.

The CHAIRMAN: We will ask the president to make a statement now.

Mr. GORDON: Yes. I presume the members have before them a copy of the budget and I will refer to it page by page.

Before commencing the detailed review of our capital budget I thought a brief word on the mechanics governing the preparation of our annual budget may be helpful. First it should be understood that, broadly speaking, we have three levels of administration in the Canadian National Railways

system: the area, the region, and headquarters. We commence with the area level. There are 18 area managers located at points which have been selected as the most strategic and convenient for supervision in terms of actual transportation operations and maintenance, sales, accounting, labour relations and other services. These area offices are located at:

<i>Areas</i>	<i>Headquarters Location</i>
Newfoundland	St. John's
Maritime	Moncton
Chaleur	Campbellton
Quebec	Quebec
Champlain	Montreal
Montreal	Montreal
Rideau	Belleville
Toronto	Toronto
London	London
Northern Ontario	Capreol
Lakehead	Port Arthur
Winnipeg	Winnipeg
Assiniboine	Winnipeg
Hudson Bay	Dauphin
Saskatchewan	Saskatoon
Edmonton	Edmonton
Calgary	Calgary
British Columbia	Vancouver

From the area level originate most of the routine capital expenditures for the track structure, e.g. grading, ballasting, ties, rails and fastening, or local building, and so on. These area offices clear their requirements to the regional level, which is the second line of administration under the direction of a regional vice-president. There are five regional levels: at Moncton for the Atlantic region, Montreal for St. Lawrence region, Toronto for Great Lakes region, Winnipeg for prairie region, and Edmonton for mountain region.

Recommendations for capital expenditures from the area managers are submitted progressively during the early part of each year to regional offices where they are studied and sifted and those which are found acceptable are then included with the major projects for which the regional office has responsibility.

These recommendations are then advanced to Montreal headquarters as proposals for acceptance in the month of July when preliminary budget projects and costs are evaluated. At that time, they are combined with requests for rolling stock, major signal installations, terminals, yards and other departmental requirements. After consolidation, they are advanced to the president for consideration. In due course, advice is transmitted back to the regions and departments as to the acceptance or rejection of certain of their proposals.

By the fall of the year most of these formal proposals will have been made and a series of meetings then commence between the headquarters committee, before whom the regional representatives appear. Here too programs are subjected to a searching examination and a further trimming is usually achieved. Headquarters includes representations from our transportation and maintenance department, research, engineering, accounting and financial, and others. All other system staff departments are also required to present a budget and when all reviews are completed a consolidated budget is laid

before the president, who then presents it to a regular meeting of the board of directors, where a final discussion takes place. This typically is at the January meeting of the board.

Under section 37 of the C.N.R. Act, the annual budget is under the control of the board of directors. After approval by the directors it is submitted to the Minister of Transport, with copies to the Minister of Finance, so that it may be approved by the governor in council, as also required by the C.N.R. Act, after which the budget is laid before the parliament by the Minister of Transport. From this short review members of the committee will see that a very thorough going scrutiny is made of all capital projects in respect of their need to maintain the property and also as to the economic justification for their adoption.

I suggest we commence this review by looking at page 1 entitled "capital budget—year 1962", which gives in summary form in the first column the new 1962 proposals, that is, the new expenditures which were recommended for this year and which total \$97,824,000.

In the second column is shown the dollar total of previously authorized projects in process of completion being \$119,764,000, and in the third column the grand total of the entire capital budget in process following the order in council approval of our 1962 requests and which is \$217,588,000. In the two columns at the right you will find our cash budget, that is the estimate of actual 1962 cash expenditure for which money had to be found. You will see the budget total for 1962 is \$132,700,000 as compared with \$143,200,000 in 1961.

We are happy about these 1962 capital requirements—the figure \$97.8 M., being the lowest budget figure for many years and compares, for example with a peak figure \$332 M. in 1958. Moreover, practically all the new 1962 capital expenditure is confined to replacement of the normal wear and tear of railway operations. Indeed, with the exception of branch lines, which will be dealt with later, no new railway projects of a major character are in contemplation and the only new commitments of size are in our telecommunications department covering our half share of a joint CN/CP Montreal-Vancouver \$36 M. microwave system of which we expect to have cash expenditures of \$3 M. in 1962.

The total budget in play, that is the figure \$217,588,000, is also substantially lower and compares with the peak figure in 1958 of \$505,596,000.

It is of interest also to note that of the \$132,700,000 shown as estimated cash expenditures during 1962, some \$64.3 M. will be spent on the 1962 new projects and the balance, some \$68.4 M., to be expended to advance or clean up projects previously authorized. These figures are the lowest in many years and represent a welcome relief from the experience of our capital expenditures steadily increasing the burden of fixed charges.

I propose to deal with each of the main headings shown on this summary sheet, that is, with road property, branch lines, hotels, equipment and investment in affiliated companies, but before doing so I would ask you to turn to page 2 of the budget papers before you, wherein I can dispose of the question of the financing of the budget. You will see the figure \$132,700,000 being as I have already said our estimated 1962 cash expenditure. Immediately thereunder is the heading 'source of funds' where we show how we expect to find the cash, and you will note that our self-generated funds, that is depreciation accruals, salvage, amortization, etc., and issue of preferred stock will be sufficient to meet our cash requirements, without recourse to any public financing.

January 1, 1963 to June 30, 1963

This heading covers a procedural requirement only. The annual Financing and Guarantee Act is the statutory authorization for the C.N.R. capital expenditures and additional borrowing. Typically this act is passed by Parliament towards the end of the first half of the year. As a practical measure the act for the current year, in this case 1962, also provides interim authority for capital expenditures on previously approved projects during the first half of the ensuing year, in this case 1963. This interim authority is superseded by the passing of the next year's Financing and Guarantee Act.

Commitment Authority Requested

In the normal course of carrying out capital projects it is necessary for us to sign contracts with other parties (principally equipment manufacturers) which entail deliveries and payments falling outside the budget year. The total of such projects in the present budget is estimated at \$45.0 millions.

Existing Financial Authority

The caption 'existing financial authority' at the bottom of the page demonstrates how these procedures work: it sets out the extent of the interim authority which was provided by the 1961 act with respect to the first half of 1962. The interim needs having been met, expenditures related to them now form a part of 'gross capital expenditures' for the year 1962, shown at the top of the page, and receive formal authorization in the 1962 Financing and Guarantee Act.

Now then, on page 3 we commence the breakdown to which I referred a few minutes ago, being the summary headings shown on page 1.

Keeping to page 3, you will see at the bottom of that page a heading "Road Property—Total", and on this page you will see the breakdown by group headings and by regions. The total expenditure in play for road property is in the right-hand column under total, which you will note is \$173,848,500, of which total you will also observe \$106,376,900 is proposed expenditures during 1962.

These, I might point out, are the same figures that were shown summarized on page 1 of this statement.

Still keeping to page 3, with the explanation of the headings "General", and "Telecommunications", with which I will deal in greater detail, the headings are in each case, I hope, self-explanatory.

I have under my hand the further breakdown into individual projects for each of the summary headings, if any member has a question in respect of any particular area or subject, for example.

The figure \$33,746,000 shown under "New Line, etc.", in the Great Lakes Region, covers the new access railway lines including the acquisition of property in respect of the Toronto project previously authorized, while the figure \$26,500,000 shown in the same region, under the heading of large terminals, covers the proposed expenditure for the new electronic hump yard itself. Both of these figures are part of the same over-all project which has been dealt with at some length at previous meetings of this committee and which is, therefore, in the category of "re-voted".

Under the heading of 'general' there is a total of \$19.4 millions—\$4.9 million of this represents the construction of traders sidings or other projects under orders of regulatory authorities, and individual revote projects costing less than \$200,000, and the \$14.5 million is a general contingency fund to provide for miscellaneous projects and which may need to be advanced during the year. An example would be an item for \$1.9 million for progress work in connection with end-to-end train radio communication.

Telecommunications:

The Telecommunications budget totals as you will see \$33,221,000. Of the total figure of \$33,221,000 shown under this heading, \$14,136,000 is the budget cash expenditure for 1962. (This compares with average yearly cash expenditures for the past eight years of \$13,272,000.) The main headings for the 1962 expenditures are:

Capital proportion of replacements and renewals being reconstruction of pole lines and power plants in certain areas		\$ 1,155,000
Specific railway facilities (revotes).....		123,000
Mechanization: completion of Montreal switching system and linemen's vehicles for patrol maintenance and light construction at outlying points.		418,000
Plant expansion: being telephone and telegraph channels and customers telex and teletype equipment.....		8,260,000
Microwave: being 1962 expenditure on joint CN/CP transcontinental microwave	\$3,000,000	
Addition of general communications on microwave Montreal-Moncton and some clean-up work on the Alaska and Newfoundland systems	1,180,000	4,180,000
Sub-total		14,136,000
Future years		19,085,000
Cost to complete projects in budget.....		<u>\$33,221,000</u>

1962 commitments are \$11,627,400, of which \$9,000,000 is the 1963 expenditure contemplated for the transcontinental micro-wave. The balance represents scheduled deliveries of teletype equipment and telephone and telegraph carrier equipment.

On page 4 we deal with Branch Line construction now in hand. Each of these branch lines has been authorized by special act of Parliament and has been fully explained, both in railway committee and in Parliament. In respect of the \$2 million contingency, this is to provide for various proposals requiring special legislation and items requiring further study. In other words, this provision will not be used unless a particular project has reached the point at which branch line legislation is necessary and is enacted. For example, it will provide our share towards cost of the construction of a line of railway in the Province of Alberta from Whitecourt, Alberta, for a distance of approximately 23.2 miles to the property of Pan American Petroleum Corporation, the legislation for which was enacted after this budget had been prepared.

On page 5 we cover the proposals for our Hotels. There is not much of size planned for 1962, and for the most part the expenditures represent normal additions or replacements of furniture, installation of television sets, and things of that kind. The extension of 160 rooms to Nova Scotia hotel will be cleaned up with the spending of \$100,000 as shown, and the item for Jasper Park Lodge includes \$423,100 for the construction of eight new four room guest cabins and four multi-unit cabins totalling eighty rooms.

Page 6 takes us to the Equipment budget which contemplates new proposals to purchase 655 freight cars and one work equipment unit at an estimated cost of \$8,255,000. There is also a total of \$4,431,000 which provides for additions to and conversions of existing equipment. Revote items total \$17,129,700 of which \$16 million is for equipment authorized in Financing and Guarantee Acts in prior years. The commitment authority is shown as \$18 million and is part of the \$45 million already referred to on page 2.

Page 7 headed "Investment and Affiliated Companies" is, I think, self-explanatory. The financial requirements of T.C.A. are financed through the C.N.R. budget for convenience. The President of T.C.A. will be appearing before this Committee to present the detail of their capital budget and their net borrowing requirements appear as \$9,800,000 for 1962.

Page 8 covers the retirement of outstanding securities which expired January 1st, 1962. These were paid off with the assistance of borrowing from the Government. The other figures represent our obligations to purchase on the market the bonds in question, if the market prices of them are equal to or less than the original issue price.

Page 9 gives the forecast of our operating budget for the year 1962. I should say at once that this can only be considered in the category of an informed guess as there are a number of contingencies, to which I shall refer later, which could upset our estimates. Nevertheless, it is the best estimate we can make and I propose to take a few minutes to tell the Committee how we make it up. As is the case with our capital budget, our estimate for revenues comes from two independent sources. The first source is the Sales or Traffic personnel of the System. Each area and region make a field estimate after surveys of main shippers and the volume and type of traffic likely to originate on their territory. These estimates are sent to Headquarters Sales Department where they are consolidated with estimates for national accounts and the total reviewed by our Vice President Sales. The second source is through our General Economist in our Research and Development Department. He works from a close study of forward economic indicators which reveal the trends in various sections of the Canadian economy and also in consultation with other economists in industrial and government sources. On the basis of the trend lines thus established, our General Economist will calculate the over-all revenue figure to be expected in System revenues. To a surprising degree these two estimates usually come together.

Our forecast for our expense budget also originates in the field commencing with the area estimates for road maintenance, equipment maintenance, transportation costs, and so on, and passing through regional offices to headquarters for final consolidation. Following close scrutiny at meetings of the various departments of interest, the expense estimate is then tested against the traffic estimate. In this instance the 1962 expense forecast is the result of a tough appraisal of the minimum increased expense required to handle the anticipated increase in traffic, or to put it into figures we have allowed only \$4.9 million, or 0.7 per cent from the 1961 expense level, to handle the \$23.5 million estimated improvements in traffic. This is an illustration of the important fact that our railway plant is well equipped to handle a substantially large volume of traffic and that our deficit would decrease readily if greater volume were secured.

I wish also to make it clear that we estimated expenses on the basis of 1961 material prices, wage rates and freight rates. Consequently any additional expenses in settlement of wage demands outstanding when the estimate was made up last February or from an unexpected rise in prices of materials, were expected to cause a direct addition to the estimated deficit unless freight rate increases were found possible or other payments made in their stead.

Nevertheless, as I said earlier during my comments on the Annual Report, it now looks as if we will be able to live within the budgeted deficit of \$48.3 million despite the fact that we have already absorbed additional wage costs, increased pension charges and some price increases totalling about \$11.3 million.

There, Mr. Chairman, is the budget in summary form as I have given it to you.

The CHAIRMAN: I think that is a very excellent and full summary of the budget.

Mr. CARTER: I would like to ask Mr. Gordon one or two questions. This is your capital budget for this fiscal year and it corresponds with the calendar year.

Mr. GORDON: Yes.

Mr. CARTER: So that a considerable amount of this money has now been spent.

Mr. GORDON: Yes. A good deal of it has been spent.

Mr. CARTER: You were given authority to spend \$66 million somewhere?

Mr. GORDON: No.

Mr. CARTER: You were given prior authority.

Mr. GORDON: This budget, as I now have presented it to this committee, has been approved by order in council, so that we have full authority to go ahead on that basis. I mentioned that in my opening statement which covered the annual report.

Mr. CARTER: On page 1 you have a proposed expenditure of \$132,700,000, whereas your total estimate of expenditure is \$217 million.

Mr. GORDON: Yes, sir.

Mr. CARTER: Which of these figures is the one you are going to spend this year?

Mr. GORDON: The \$217,588,000 covers our prior authorities plus the new 1962 proposals, so that that is the grand total of the budget for which we possess authority. Of that total we propose to spend in 1962 in cash, in implementation partly of the previously authorized projects and partly of the new projects, a grand total expenditure estimated at \$132,700,000. That is the amount we have to find cash for in the year 1962.

Mr. CARTER: What is the limiting date on the \$217 million? By the end of 1962 are you supposed to have spent \$217 million, or when do you arrive at this total? When do you finish spending it?

Mr. GORDON: We never do. It is always in play. As I said in my notes, we deduct the amount that we would spend. Of the \$132,700,000, \$64.3 million will be spent in implementing 1962 new projects and \$68.4 million will be expended to advance or clean up projects previously authorized, so that a certain amount of this will be carried forward into next year, and there will be new projects added. Some of these projects which are in play may take three or four years to build or complete.

Mr. CARTER: I note that this is called your cash expenditures; does that represent your total expenditures?

Mr. GORDON: That is our estimate of the cash needs in 1962, and on page two I have shown you how we finance it.

The CHAIRMAN: Are there any further questions? I think we have had a very full explanation from the president in connection with each item.

Mr. PASCOE: I have one question in connection with page one, "New Lines, Diversions and Abandonments"; in turning to page three I note it says "New lines, Diversions and Abandonments and there is no amount allocated under the prairie region although there is \$10,130,500 for roadway improvements. Is there any significance to the fact that there is no allocation there in regard to "New lines, Diversions and Abandonments"?"

Mr. GORDON: No. That is the amount we have under roadway improvements for the whole of the Prairie region.

Mr. PASCOE: Do you mean for the prairie region?

Mr. GORDON: Yes, for the prairie region.

Mr. PASCOE: But there is nothing for new lines, diversions and abandonments.

Mr. GORDON: No. There are no new lines or diversions contemplated in the year 1962.

Mr. PASCOE: Or abandonments?

Mr. GORDON: Now, remember, we are talking about 1962, Mr. Chairman and, really, this budget for all practical purposes is finished and we might as well get on with it, because it has been authorized.

The CHAIRMAN: Are there any further comments?

Mr. BADANAI: I move that we adopt the budget as presented.

Mr. SMITH (*Calgary South*): I second the motion.

The CHAIRMAN: It has been moved by Mr. Badanai and seconded by Mr. Smith (*Calgary South*) that we adopt the budget as read. All those in favour? I declare the motion carried.

Now, shall we take the annual report of The Canadian National Railways Securities Trust before we take the auditor's report which is as follows:

ANNUAL REPORT

OF THE

CANADIAN NATIONAL RAILWAYS

SECURITIES TRUST

FOR THE YEAR ENDED DECEMBER 31, 1961

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Trustees: Donald Gordon, C.M.G., LL.D., *Chairman*; J. R. Griffith, W. G. Stewart, Q.C. LL.B., W. Colquhoun, J. L. Levesque, G. Charbonneau, G. E. Ayers, A. McD. McBain, H. I. Price, J. B. Sangster, R. A. Brown, W. C. Koerner.

OFFICERS

Secretary R. H. Tarr

Comptroller L. J. Mills

Treasurer E. J. Denyar

THE CANADIAN NATIONAL RAILWAYS
SECURITIES TRUST

MONTREAL, 26 February 1962

The Honourable Leon Balcer, P.C., Q.C., M.P.
Minister of Transport
Ottawa

Sir:

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952, the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1961.

Application was made to the Governor in Council for the release of the following securities in accordance with resolution dated 7 December 1961, and approval was so granted under authority of Order-in-Council P.C. 1962-4 dated 5 January 1962, which securities will be cancelled and cremated:

<i>Description of Issue</i>	<i>Par Value</i>
Canadian Northern Alberta Railway Company 3½% First Mortgage Debenture Stock, due 4 May 1960	£ 534 097
Canadian Northern Ontario Railway Company 3½% First Mortgage Debenture Stock, due 19 May 1961	6 294 345
	<hr/>
	£ 6 828 442

The Trustees present herewith the Balance Sheet at 31 December 1961.
For the Trustees

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT DECEMBER 31ST, 1961

ASSETS

Claims for Principal of Loans—

Canadian Northern Railway.....	\$312,334,805.10
Grand Trunk Railway.....	118,582,182.33
Grand Trunk Pacific Railway.....	116,006,599.08
Canadian National Railway Company	96,936,971.75
	\$ 643,860,558.26

Claims for Interest on Loans—

Canadian Northern Railway.....	\$309,702,897.65
Grand Trunk Railway.....	103,250,802.95
Grand Trunk Pacific Railway.....	107,326,622.84
Canadian National Railway Company	54,501,313.57
	574,781,637.01

Transactions of Canadian National Railway System subsequent to January 1st, 1937, affecting the book value of the capital stock of the Securities Trust.....

71,925,579.14

Securities Held—

Collateral Securities—Schedule A.1.....	
Other Securities —Schedule A.2.....	
	\$1,290,567,774.41

LIABILITIES

Capital Stock Owned by Canadian National Railway Company—5,000,000 shares of no par value capital stock....	\$ 341,963,017.02
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Amount by which the book value of claims and interest thereon exceeded the initial stated value as of January 1st, 1937.....

948,604,757.39

\$1,290,567,774.41

L. J. MILLS,
Comptroller.

CERTIFICATE OF AUDITOR

I have examined the books and records of The Canadian National Railways Securities Trust for the year ended December 31st, 1961.

The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination.

In my opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at December 31st, 1961, in accordance with the provisions of The Canadian National railways Capital revision Act, 1952.

J. A. DE LALANNE,
CHARTERED ACCOUNTANT.

Dated at Montreal,
February 26, 1962.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding

CANADIAN NATIONAL RAILWAY COMPANY

Notes and Collateral Held

6% Loan, Vote 139, 1923.....	\$ 24,550,000.00	{ 6% Canadian Northern Demand Note.....	\$ 12,655,019.57
		{ G.T.P. Receiver's Certificates.....	3,313,530.01
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,831.96
5% Loan, Vote 137, 1924.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	1,318,315.86
		{ G.T.P. Receiver's Certificates.....	4,691,173.58
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,822.24
5% Loan, Vote 377, 1925.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,496,718.21
		{ G.T.P. Receiver's Certificates.....	1,422,425.17
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,802.80
5% Loan, Vote 372, 1926.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,062,624.30
		{ G.T.P. Receiver's Certificates.....	364,898.78
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,880.56
5% Loan, Vote 336, 1929.....	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400.85	5% and 5½% Canadian National Railway Company Demand Notes	29,910,400.85
5½% Loans, Chapter 6, 1932.....	11,210,815.56	5½% Canadian National Railway Company Demand Notes	11,210,815.56
Less: adjustment authorized by the Capital Revision Act, 1937.....	Cr. 1,666,897.57		
Total Canadian National Railway Company.....	\$ 96,936,971.75		
Total Loans.....	\$643,860,558.26		

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of The Canadian National Railways Capital Revision Act, 1952

Description of Issue	Amount Sterling Currency
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960.	£ 534,097
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961	6,294,345
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900

Mr. GORDON: The report of The Canadian National Railways Securities Trust is all routine and there are no significant changes of any account during the year.

Mr. FAIRWEATHER: I move that the report of the Canadian National Securities Trust be adopted.

Mr. ENGLISH: I second the motion.

The CHAIRMAN: It is moved by Mr. Fairweather and seconded by Mr. English that the report of The Canadian National Railways Securities Trust be adopted. All those in favour?

I declare the motion carried.

Next is the auditor's report to parliament, which is as follows:

J. A. DE LALANNE

Chartered Accountant

507 Place d'Armes, Montreal

March 13, 1962

TO THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:

As auditor of Canadian National Railways, I report, through you, to Parliament on my audit of the accounts of the System for the year ended December 31, 1961.

I have signed a separate report in the following terms which, together with the related financial statements, is included in the annual report of the System.

I have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1961 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1961 and of the results of its operations for the year ended

on that date, according to the best of my information and the explanations given to me and as shown by the books of the System, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the System and the transactions that have come under my notice have been within the powers of the System.

I offer the following further comments:

PROPERTY INVESTMENT

It will be seen from the Property Investment Statement that gross additions during the year 1961,—exclusive of Government of Canada expenditures on Canadian Government Railways,—were \$115,843,567 which was about \$54,000,000 lower than the additions in 1960. On the other hand, depreciation accruals increased by some \$4,000,000.

The trend over the past six years is indicated in the following table:

	Gross additions	Depreciation accruals
1961	\$115,844,000	\$92,668,000
1960	169,823,000	88,712,000
1959	222,070,000	86,311,000
1958	247,144,000	72,338,000
1957	255,428,000	78,660,000
1956	203,300,000	63,851,000

The lower additions in 1961 resulted from reduced expenditures for practically all the main classifications of Road and Equipment.

It may be of interest also to note that, for the first time in many years, it was possible to carry out the capital programme without recourse to additional borrowings on long term debt—except for the requirements of Trans-Canada Air Lines.

LONG TERM DEBT

During the year there was an increase of \$9,340,148 in long term debt, accounted for as under:

Loans from Government of Canada for Trans-Canada Air Lines		\$18,571,000
Less: Reduction in loans for Railway account		1,999,550
		<hr/> 16,571,450
Reduction in bonds and debentures outstanding—		
Issues matured during 1961 including final payment on Equipment		
Trust Certificates	\$4,281,302	
Bonds acquired through Purchase Fund	2,950,000	7,231,302
	<hr/>	<hr/>
Net increase		\$9,340,148

No new bonds were sold during 1961 and the unamortized discount was reduced to \$24,236,133.

Provision had been made at December 31, 1961 for the foreign exchange required for the repayment of the two issues of Grand Trunk Pacific bonds maturing on January 1, 1962.

As regards the \$700,000,000 bonds issued during 1959 and 1960, it is a condition of these issues that the Railway Company will use its best efforts to purchase each quarter a stated percentage of each issue at prices not exceeding the original issue prices. If the prices had been equal to or lower than the respective issue prices throughout the year, the total re-purchaseable would have been \$16,700,000 par value. However, only \$2,950,000 par value of such issues were acquired in 1961, the market prices being higher than the original issue prices for extended periods during the year.

INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

Additions during 1961 amounted to \$18,900,762 of which \$18,571,000 applied to Trans-Canada Air Lines, bringing the total investment in and advances to this company to \$232,671,000.

INSURANCE FUND AND RESERVE

At December 31, 1961 the Fund consisted of the following—

Securities—at cost or amortized value	\$14,756,397
Cash, accrued interest, etc., less accounts payable	243,603
	<hr/>
	\$15,000,000
	<hr/>

The value of the above securities, based on market quotations, was approximately 11% lower than as shown above, as compared with 15% at December 31, 1960.

At December 31, 1961 there were some 250 outstanding claims of varying amounts, the respective cost of which had not been completely established. The aggregate amount which will eventually be charged against the reserve in this connection has been estimated at \$690,000.

SHAREHOLDERS' EQUITY

Government of Canada equity increased during the year by an amount of \$23,530,104 represented by:

Additional preferred stock issued	\$21,221,943
Increase in investment in Canadian Government	
Railways	2,308,161
	<hr/>
	\$23,530,104
	<hr/>

RESULTS OF OPERATIONS—YEAR 1961

The deficit of \$67,307,772 from all operations for the year was \$189,005 less than that for 1960, this, after taking into income the interim payments received under legislation enacted following recommendations by the Royal Commission on Transportation and after including in expenses both current and retroactive costs due to wage rate increases granted during the year.

No provision has been made in the 1961 accounts for any retroactive costs which might result from wage negotiations in progress.

PENSIONS

The Company's contribution to the Pension Fund for the year 1961 was computed on a basis consistent with that established for 1960. There has been

no change in the amount of the acknowledgement by the Railway for the outstanding liability in respect of prior service of active employees.

CORPORATE STRUCTURE

The number of companies included in the System was reduced during the year through the amalgamation of three of the smaller subsidiary companies,—on the other hand, two additional trucking companies and one telephone company were acquired and included in the consolidated accounts at December 31, 1961.

GENERAL

It may be of interest to note that the value of Materials and Supplies carried in the balance sheet at December 31, 1961 at \$74,609,162 was some \$10,000,000 lower than at the end of the previous year and that it was the lowest investment in Materials and Supplies at any year-end since 1949.

A settlement has not yet been reached with the St. Lawrence Seaway Authority in regard to track diversion and rearrangement of approaches to Victoria Jubilee Bridge. Pending such settlement, the cost continues to be accumulated with interest in an account classified under Other Assets in the balance sheet.

Further progress was made during the year in the modification of the accounting system being designed to meet the requirements of management as emphasized by the reorganization of the Company undertaken in 1961. This has imposed added responsibilities in all the accounting departments and has involved extensive relocation and training of personnel in new positions. While every effort is being made to achieve the desired results as expeditiously as possible it must be appreciated that the full benefits can only be attained over a period of time.

I wish to extend my thanks and appreciation to the officers and staff of the System for their continued co-operation and assistance in the conduct of my audit.

Yours faithfully,

J. A. DE LALANNE,
Chartered Accountant.

Mr. CARTER: Do we need a motion to approve this?

Mr. RIDEOUT: How long will we be sitting?

The CHAIRMAN: Well, this is the auditor's report and it is, more or less routine.

Mr. FISHER: What about the steamship lines? When does that come up?

Mr. GORDON: There are no steamship lines in the terms of reference this year.

Mr. FISHER: That is what I wondered, but Mr. Chevrier raised it last night.

Mr. GORDON: He was being facetious; you did not see him.

Mr. FISHER: I did not see the look on his face.

The CHAIRMAN: Mr. de Lalanne is our auditor.

Gentlemen, you have this report before you. Do you wish to ask any questions?

Mr. FISHER: I would like to ask Mr. de Lalanne some questions, Mr. Chairman. There are some points I would like to clear up.

Mr. de Lalanne, you are an employee of parliament rather than the Canadian National Railways? Am I correct in that?

Mr. DE LALANNE: Yes. I was appointed by parliament.

Mr. FISHER: And you are in a position to explain to us where items would come under the consolidated balance sheet and consolidated income statement?

Mr. DE LALANNE: Yes.

Mr. FISHER: There is one thing about which I am curious. I would like to know under what item in the consolidated balance sheet or the consolidated income statement we would find Midland Superior Trucking Company, which is partially owned by the C.N.R.

Mr. DE LALANNE: I think the amount is under the general heading of "Other Assets", but I do not have the exact detail here.

Mr. FISHER: Where would that be?

Mr. DE LALANNE: In the last section.

The CHAIRMAN: It would be at page 22, the upper half of the last section.

Mr. DE LALANNE: Above my certificate.

Mr. FISHER: Under "Other Assets"?

Mr. DE LALANNE: Yes.

Mr. FISHER: Is this particular accounting service consolidated with the other trucking interests of the C.N.R.?

Mr. DE LALANNE: The amounts advanced for the purchase of that or any advances for any other purposes are in this consolidated statement.

Mr. FISHER: What about the revenue?

Mr. DE LALANNE: The revenues of—

Mr. FISHER: The revenue of Midland Superior.

Mr. DE LALANNE: That, as well as any others, are dealt with in the manner in which one would deal with them under good accounting principles.

Mr. FISHER: But the point I wanted to raise is this. Here is an organization in which the C.N.R. has not a controlling interest, as I understand it.

Mr. DE LALANNE: Yes.

Mr. FISHER: And that is from the information the president gave us.

Mr. DE LALANNE: Yes.

Mr. FISHER: And it is 49 per cent?

Mr. DE LALANNE: Yes.

Mr. FISHER: Because of the fact that the C.N.R. does not control the majority ownership what is the relationship of this particular company to the duties you perform.

Mr. DE LALANNE: I do not know that I understand your question exactly; it is an investment of the company in the same manner as any other in which they have a part ownership.

Mr. FISHER: My difficulty is that it seems to be consolidated in the general balance sheet of the company.

Mr. DE LALANNE: Yes, the same as any other investment; there is no difference.

Mr. FISHER: But it is all consolidated even though the C.N.R. does not have the controlling interest as yet.

Mr. DE LALANNE: I think the president announced that there were deposits for unpaid amounts for certain of these companies and that must be in the consolidated sheet. The liability appears on the opposite side.

Mr. FISHER: Could you tell us from your audit whether this company declared any dividends.

Mr. DE LALANNE: I am not aware that they declared any dividends.

Mr. FISHER: Were you aware of whether they declared a profit?

Mr. DE LALANNE: Do you mean, earned a profit?

Mr. FISHER: Yes, or whether there was any profit out of this operation.

Mr. DE LALANNE: Yes; I know the answer to that, but these are questions that were asked, the answers to which were not required from the president, and I do not know that I—

Mr. FISHER: But you are not the president; you are an employee of parliament, and I am asking you.

Mr. DE LALANNE: I do not know that you are justified in asking me answers to questions, the replies to which were not required of the president, and I am concerned about that.

Mr. FISHER: But there is a difference; you are our servant, not the president's.

Mr. RIDEOUT: Are you the servant of the minister?

Mr. DE LALANNE: I was appointed by parliament and I report to parliament through the minister.

Mr. FISHER: Well, I am a member of parliament, and I want to know whether you found that Midland Superior had a profit also, I would like to know what disposal was made of this profit in view of the fact the C.N.R. does not own the majority interest in this company.

Mr. PUGH: Mr. Chairman, could we clear up this question in respect of the ownership? I do not want to butt in but it is my understanding from Mr. Gordon that we have a contract with this company to purchase, but which has been withheld at the present time because of non-fulfillment, and the balance of 51 per cent of the stock on fulfillment will be owned by the C.N.R. In other words, the C.N.R. will own 100 per cent of the stock.

Mr. FISHER: I would like to point out, Mr. Chairman, that it is Mr. de Lalanne that we are examining now, not Mr. Gordon.

Mr. PUGH: Perhaps I could ask that question of Mr. de Lalanne.

Mr. FISHER: That is the way you should proceed.

Mr. PUGH: I was only looking at Mr. Gordon because I stated that was his statement. Does my statement correctly indicate the status of the stock, Mr. de Lalanne?

Mr. DE LALANNE: That statement in my opinion is the true one.

Mr. PUGH: I understand the C.N.R. has the right to 100 per cent of the stock and the right to all the profits in the meantime, is that correct?

Mr. DE LALANNE: That statement is a correct statement as far as I am aware.

Mr. PUGH: Does the C.N.R. have the right to the profits in the meantime?

Mr. DE LALANNE: I have no reason to believe that it does not have that right.

Mr. PUGH: Is this a matter of record?

Mr. DE LALANNE: The profit or loss of any companies is not necessarily transferred.

Mr. PUGH: It is a matter of record that they have had all the profits in the interim?

Mr. DE LALANNE: I do not think I am in a position to answer that question.

Mr. FISHER: Why are you not in a position to answer that, Mr. de Lalanne; you examined the accounts?

Mr. DE LALANNE: I did not examine the accounts of Midland-Superior, but I have seen the audited statement.

Mr. RIDEOUT: Mr. Chairman, on a point of order. Did we not arrive at some decision in this regard yesterday?

The CHAIRMAN: Yes, we passed these items in the other report.

My understanding of a chartered accountant's duty is to examine the consolidated balance sheet and the consolidated income statement for the year ending. I have never understood it to be a function of a chartered accountant to give details of the management of the company.

Mr. CHEVRIER: Mr. Chairman on the point that has been raised, I think there is a distinction to be made between the president of the railways and the auditor.

The CHAIRMAN: Quite so.

Mr. CHEVRIER: I think I made it quite clear that when the president declared that he could not give that information on the grounds of discrimination, vis-a-vis competition, so far as I was concerned I would support that position and I thought the majority of members would also lend support to that position. However, the circumstances I think now are somewhat different. We have before us an officer of parliament and if he knows whether or not there has been a profit he should tell us. We are not asking for details, but when the question has been put to him, whether or not with reference to this particular corporation there has been a profit, I think that there should be an answer.

The CHAIRMAN: I think he has answered that question.

Mr. LEWIS: Mr. Chairman, let me put the question this way. The auditor looked through the C.N.R. books. Was there in the C.N.R. books which he audited an entry showing income from profit? I was putting Mr. Fisher's question in this form. You audited the C.N.R. books?

Mr. DE LALANNE: That is right.

Mr. LEWIS: I am putting Mr. Fisher's question in a slightly different form. Did you in examining the books come across a revenue entry derived from profits of Midland-Superior?

Mr. DE LALANNE: Such an entry would not necessarily be in the books of the C.N.R. If separate books are kept the figures from the different places are brought together into the consolidation and C.N.R. would not necessarily pick up any profit or take in any loss.

Mr. LEWIS: Well, in the books that you examined, or from any knowledge that you obtained from any officer or servant of the C.N.R. or anyone related to any officer or servant of the C.N.R., if you are going to be technical—

Mr. DE LALANNE: I am not being technical.

Mr. LEWIS: Did you from any such source directly or indirectly find out whether there was a profit which came to the C.N.R. from Midland-Superior?

Mr. DE LALANNE: I think the answer to that question is yes. Any result of the operation of that company which I would see, in my opinion would either now or eventually come into the accounts and be paid in one way or another as a dividend to the C.N.R.

Mr. FISHER: When you said "eventually", you were not answering the question I asked. We have a declaration here in respect of a profit on the trucking operations of the Canadian National Railways. Is Midland-Superior represented in that profit, or will it be represented there eventually?

Mr. DE LALANNE: Are you referring to the figures that were quoted?

Mr. FISHER: Yes.

Mr. DE LALANNE: Yes. I have seen the make-up of the figure and that is all inclusive.

Mr. FISHER: And that figure includes the position of Midland-Superior?

Mr. DE LALANNE: Yes.

Mr. FISHER: Why did you use the word "eventually"?

Mr. DE LALANNE: If a company has a subsidiary and it makes profits, in the general statement the profit will only be shown as the profit of the holding company, but in a consolidated statement the two profits will be added together. The profit will not necessarily be paid over until such time as it is intended to pay a dividend, and then it is paid over by way of dividend. It is not necessarily paid over as it is earned. The surplus or deficit is still carried by the subsidiary company.

Mr. FISHER: But this is included in the consolidated income for the year 1961?

Mr. DE LALANNE: The paragraph appearing at page 12 of the annual report to which Mr. Gordon referred, and which contains that figure mentioned, is a true statement of the position, in my opinion.

Mr. FISHER: That answer still does not tell me whether Midland-Superior had a profit in total in respect of what it earned in 1961. Is that included in that item?

Mr. DE LALANNE: Yes, that is right.

Mr. FISHER: That is included there?

Mr. DE LALANNE: Yes, that is right.

Mr. FISHER: In that event a dividend has been declared?

Mr. DE LALANNE: This statement simply says that for the full year of 1961 the net operating profits of all trucking companies wholly or partially owned at the end of the year were so much. Some of these companies were purchased during the year. In accounting circles one does not always take into revenue anything earned in a year prior to the date of acquisition, so that there can be differences. That total figure represents the profits of the companies owned at year end.

Mr. FISHER: My difficulty here in understanding this situation, Mr. de Lalanne, lies in the fact that the Canadian National Railways does not own Midland-Superior completely.

Mr. DE LALANNE: The statement says: "—wholly or partially owned—". There is a distinction there.

Mr. FISHER: Are you satisfied after your examination of the accounts of Midland-Superior as they relate to the trucking operations that there has been a profit from Midland-Superior included in this figure of earnings?

Mr. DE LALANNE: The results of the operation of Midland-Superior are included in that figure.

Mr. LEWIS: Mr. Chairman, the results of an operation can either represent a loss or a profit. May I suggest to Mr. de Lalanne that his evasiveness is very suspicious in respect of a situation which ought not to be subject to suspicion. Mr. de Lalanne should give us a simple answer. If the result of the operation showed a loss then I suggest he should say so.

Mr. DE LALANNE: There was no loss.

Mr. LEWIS: If there was a profit why do you not say so?

Mr. DE LALANNE: I said before there was a profit in respect of Midland-Superior.

Mr. FISHER: Mr. de Lalanne, as I understand the situation, until the deal is finalized, there is still some doubt about the C.N.R. in respect of total ownership of this particular company?

Mr. DE LALANNE: I do not know if that is correct or not.

Mr. FISHER: Did you not assume that to be a fact for the purpose of accounting? Did you not assume that Midland-Superior was completely with the control of the C.N.R.?

Mr. DE LALANNE: That was the statement made by the president and I have no reason to dispute it.

Mr. FISHER: I should like to know whether you did check this kind of thing?

Mr. DE LALANNE: Yes, I have seen the agreement which shows what the C.N.R. is entitled to do, but if something should happen and the licences were not granted the situation could be different. I cannot forecast what will happen later. Under the present circumstances in my opinion the railway has full right to pick up these shares at the agreed price eventually and at that time transfer, by way of a dividend, or in any way the company might wish, the profits that have been earned by Midland-Superior from the time of the originally proposed acquisition.

Mr. FISHER: Is it normal or customary in auditing for a company to include in its general statement of profit and loss for the corporation as a whole, that profit or loss of a company of which at the present time it does not have a controlling interest?

Mr. DE LALANNE: This statement is strictly a statement of what the situation was. It says that this figure does include the profits for the year of any company in which it has only partial ownership as well as the wholly owned.

Mr. FISHER: What is the situation, Mr. de Lalanne, with regard to the money that is being held in account by the railway to complete this particular contract or arrangement in respect of Midland-Superior at some future date?

Mr. DE LALANNE: These moneys were deposited with the trust company, I believe at the end of last year, and I believe they are earning interest in the normal way.

Mr. FISHER: Is this interest also included in the profit or loss position of the trucking companies?

Mr. DE LALANNE: That will only appear in the 1962 figures.

Mr. FISHER: Why would they not appear in 1961?

Mr. DE LALANNE: The deposit was made from the general funds at the end of the year, towards the end of December. They will offset charges that may be made on the money on advances from the government.

Mr. FISHER: Where was the 51 per cent covered during the year 1961?

Mr. DE LALANNE: It would have been in the general funds. It would not have been segregated until the end of the year.

Mr. RIDEOUT: Mr. Chairman, my observation was only motivated by the idea of expediting matters. I want to get home this afternoon. I wonder whether we could sit through orders of the day?

The CHAIRMAN: I do not think it should take us very long to conclude this. It seems to me that we might be able to conclude it right away. I hope there is no misunderstanding but I think Mr. Fisher's questions, although they are perhaps quite pertinent, should not lead to pressing our chartered accountant. When I say "our chartered accountant" I mean that it is we who are representing parliament and the shareholders of the company. The president has told us that he did not consider it in the interest of the company to reveal to competition these details of the over-all profits and losses studied by the chartered accountant or the auditor. It does appear to me that we should accept them as such and that we should not cross-examine our auditor to get him to reveal something that the management of the company feels is not in the interest of the company. After all, it is our company.

Mr. CHEVRIER: I move we adjourn until after orders of the day.

Mr. FISHER: There is only one more question that I should like to ask.

Mr. PASCOE: We should try and finish it up now.

Mr. FISHER: Last year I asked you, Mr. de Lalanne, what steps you took to check as an auditor for parliament the expense accounts of the officers of the C.N.R. I believe at the time you said you had not made any specific efforts but that you would consider it.

Mr. CHEVRIER: If you want to carry on, I have no objection, but I would like permission to come back to the annual report of the C.N.R. and put a question or two to Mr. Gordon.

Mr. GORDON: I am sorry but I will not be here.

Mr. PUGH: May we not do it right now?

The CHAIRMAN: Mr. Fisher has one question.

Mr. DE LALANNE: I think that I intimated to you that this did form part of the regular audit and I promised you then that I would have a very careful screening made, over and above what we do normally from time to time, of all the accounts for one particular month. I received a copy of the report for a particular month. I took it from the report that is filed with the board of directors, and I had half a dozen of the main accounting centres go into this matter and go through the vouchers. From all these sources I received very good reports of the manner in which the statements of the officers' and employees' expenses, from the president down, were prepared, submitted and approved.

Mr. FISHER: Thank you.

Mr. CHEVRIER: I apologize for not being here at 10 o'clock. I had a meeting elsewhere and I could not come earlier. I would like to refer to page 18 of the report which deals with the services of a number of directors of the Canadian National Railways, particularly Mr. Wilfrid Gagnon and Mr. J. A. Northey. I would like to pay tribute to those two men for the long years of service in the Canadian National Railways, and also to say what I think the president would say if he had the opportunity, that among those directors perhaps those were the two who did render tremendous service to the railway. I would also like to add that there is a man among the present board, namely Mr. J. Louis Levesque who is of the same type and character as those two other gentlemen and whom I think the C.N.R. is extremely fortunate in obtaining and who is one of the most outstanding businessmen and public men in Canada, not to say international.

Now, having said that, I would like to ask the president if it has been possible to obtain the services of men of that character and type within the board of directors, why then has it not been possible to do the same thing in respect of the operating directors of the railway, I mean the vice presidents of the railway; because when I look at the annual report I see—and the president will be kind enough to correct me if I am wrong—that there are at least three men who have been taken from outside; not including himself, I see the name of Mr. R. H. Tarr, vice president and executive assistant; Dr. O. M. Solandt, vice president research and development; and Mr. W. T. Wilson, vice president personnel and labour relations. My question to the president is this: if it has been possible to get those three men from outside the operations of the Canadian National Railways, then why has it not been possible to obtain men of the same character as Mr. Levesque and Mr. Gagnon, also outside the service to become operating directors of the Canadian National Railways?

The CHAIRMAN: In all fairness and I do not want to be discourteous, I think we have had a lot of latitude in this committee. But this report was passed, and we have since that time been dealing with the auditor's report. However I appreciate your question.

Mr. CHEVRIER: Well, I asked for permission and I took it for granted that permission had been accorded. I would like to ask the president a question or two, and then put a question to the minister if I may. First of all I suggested that we adjourn until after the Orders of the Day, but I gathered that the feeling was against doing so. Therefore, I took it for granted that I had obtained permission. So I would like to get the president's answer, and then to question the minister.

The CHAIRMAN: We are not following orderly procedure, but if the committee is satisfied, since I am your servant, then all very well, but I do not like reverting to something already passed. I thought we had been going along in an orderly fashion. But if the president is prepared to answer, and if the committee wishes it, then very well.

Mr. GORDON: I do not think I can add very much to the discussion we had about this earlier. But on the point which Mr. Chevrier has raised, conditions are completely dissimilar. In one case the government selected a board of directors from a group of business men, and they had the whole of Canada from which to choose. None of these men were people experienced in the railway, or brought up in that respect. But at the given time of appointment we found men we thought who best suited the purpose.

Mr. CHEVRIER: If it was possible to find those men for the board of directors, why was it not possible to find such men for the operating vice presidents of the Canadian National Railways from outside or across Canada?

Mr. GORDON: We did not find it so. We attempted to find such men, but we were not able to find them.

Mr. CHEVRIER: Now may I ask the minister if he has done anything about this question?

Mr. BALZER: I am a French Canadian, like yourself, and there is nothing I like better than to see French Canadians go ahead in any field of activity in Canada. In fact I would even like them to become president of the Canadian National Railways. There is nothing I would like better. I have shown, myself, as Minister of Transport, that I am very conscious of that, and I would like to see in the government service as many French Canadians as possible. I am very glad to have been the Minister of Transport when we changed one situation. You will recall that when you were Minister of Transport there was only one French Canadian on the board of directors, but since I have become minister, we have increased that number by three.

Mr. CHEVRIER: That is right.

Mr. BALZER: I am very pleased with that, and I hope this example will be followed in all the crown companies over which I am minister, and for which I have to report to parliament.

Mr. CHEVRIER: When the former government was in office there were only five directors of the C.N.R.; hence there was but one representative from Quebec. Today there are 12 directors. I would like to ask, Mr. Minister, if you read the statement which you made on a telecast not long ago when you criticized very severely the present president of the Canadian National Railways in these words:

But the right way to settle this question would have been to obtain from the group, from the block of members in the province of Quebec, but these men did not perform their duty, all our Liberal members were quickly put in their place by the number one bureaucrat of the federal administration, Mr. Donald Gordon, he to whom we pay through our taxes a salary of at least \$75,000 a year and who doesn't give a damn for the rights of French Canadians.

Do you remember that statement which you made?

Mr. BALCER: No; I do not remember it. Where was it made?

Mr. CHEVRIER: It was made by you over television prior to the 1958 elections. I am asking you if you did anything to put into effect the statement which you made over the air on that occasion.

Mr. BALCER: I have discussed with Mr. Gordon this matter of French representation on the Canadian National Railways. Also, I would like to say that to date I have been working with Mr. Gordon and I am fascinated by the work and the excellent service that this gentleman is giving to Canada as a whole.

Mr. CHEVRIER: Good. Then you have changed your opinion from the statement which you made over the air?

Mr. BALCER: Yes.

The CHAIRMAN: Might I be permitted to say a word on this. I am a member of this committee even though I am just acting as your chairman. I have known every president of the Canadian National Railways from the time it was organized. I have known them personally and have seen them in action. When I was not the chairman of this committee I sat in and listened during the general committee investigations. Everyone will agree that the last ten years have been swiftly changing times, especially in respect of transportation. It may not be the view of the whole of the committee, but from a personal point of view, as a member of this committee, as a taxpayer and shareholder in this great enterprise, I think Canada is very fortunate today to have, under Mr. Donald Gordon, the most capable business management it has had in the C.N.R. since its inception. I have no flattery to give, and he does not expect it from me. I am giving my own personal view. I have watched this operation very closely for thirty-five years and I think Canada is very fortunate today in having the best president that the Canadian National Railways, from a business management standpoint, has had from its inception.

Mr. FISHER: My only comment is the greater the deficit, the greater the hero.

Mr. CHEVRIER: Will you allow me to confirm the statement you have made, Mr. Chairman. I would like to do it now with but one exception, and that is the exception put on the record a few days ago and again here a few minutes ago.

The CHAIRMAN: Shall the Auditor's Report carry?

Mr. PASCOE: I so move.

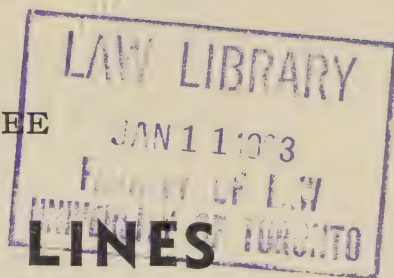
Mr. SMITH (*Calgary South*): I second the motion.

Motion agreed to.

The CHAIRMAN: Thank you, Mr. Gordon, for your congenial co-operation.

HOUSE OF COMMONS
First Session—Twenty-fifth Parliament
1962

SESSIONAL COMMITTEE
ON
**RAILWAYS, AIR LINES
AND SHIPPING**



Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, NOVEMBER 27, 1962
WEDNESDAY, NOVEMBER 28, 1962

Annual Report, Capital Budget and Auditor's Report to Parliament—
TRANS-CANADA AIR LINES
and

ITEMS OF THE REVISED ESTIMATES OF 1962-63:

- 80—Newfoundland Ferry and Terminals.
- 85—Prince Edward Island Car Ferry and Terminals.
- 100—Maritime Freight Rates Act.

WITNESSES:

The Honourable Leon Balcer, Minister of Transport.

From Trans-Canada Air Lines: Mr. G. R. McGregor, President, Mr. W. S. Harvey, Vice-President, Finance and Comptroller, Mr. H. W. Seagrim, Senior Vice-President, Operations, Mr. R. C. MacInnis, Director of Public Relations, Mr. A. J. Gauthier, Area Manager, Government and Public Relations, and Mr. J. A. de Lalanne, Chartered Accountant.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1962

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Chairman: Honourable W. Earl Rowe

Vice-Chairman: Mr. Heber Smith

and Messrs.

Addison	Fairweather	Prittie (2)
Badanai	Fisher	Pugh
Beaulé	Foy	Rideout
Benidickson	Grégoire (3)	Rinfret
Bourbonnais	Laing (1)	Robinson
Carter	McDonald (<i>Hamilton</i>	Rouleau
Chevrier	<i>South</i>)	Smith (<i>Calgary South</i>)
Coates	Ouellet	
English	Pascoe	

- (1) Replaced Mr. Lamoureux } on November 26, prior to the 11th meeting.
(2) Replaced Mr. Lewis }
(3) Reinstated at 2.30 o'clock p.m. November 26, prior to the 12th meeting
(vice Mr. Caouette).

ORDERS OF REFERENCE

(In so far as they Relate to T.C.A. and Items 80, 85, 100
of the Revised Estimates)

HOUSE OF COMMONS,

THURSDAY, November 8, 1962.

Resolved,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and TRANS-CANADA AIR LINES, saving always the powers of the Committee of Supply in relation to the voting of public moneys, and that the said Committee be empowered to send for persons, papers and records, and to report from time to time, and that notwithstanding Standing Order 67 in relation to the limitation of the number of Members, the said Committee shall consist of 26 Members.

FRIDAY, November 9, 1962.

Ordered,—That the Sessional Committee on Railways, Air Lines and Shipping consist of Messrs. Addison, Badanai, Baldwin, Belzile, Bourbonnais, Caouette, Chevrier, Coates, Fairweather, Fisher, Foy, Granger, Grégoire, Lamoureux, Mitchell, Muir (Lisgar), Ouellet, Pascoe, Prittie, Pugh, Rideout, Rinfret, Robinson, Rouleau, Rowe, and Smith (*Simcoe North*); and that the Annual Reports for 1961 of the Canadian National Railways, the Canadian National Railways Securities Trust, and TRANS-CANADA AIR LINES, the Auditors' Reports to Parliament in respect of the Canadian National Railways and of TRANS-CANADA AIR LINES, tabled on March 20, 1962; the budget for 1962 of Trans-Canada Air Lines tabled on February 9, 1962; and the budget for 1962 of the Canadian National Railways tabled on April 18, 1962, be referred to the said Committee; and that ITEMS NUMBERED 80—NEWFOUNDLAND FERRY AND TERMINALS, 85—PRINCE EDWARD ISLAND CAR FERRY AND TERMINALS, 100—MARITIME FREIGHT RATES ACT, as listed in the REVISED ESTIMATES OF 1962-63, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

MONDAY, November 26, 1962.

Ordered,—That the names of Messrs. Prittie and Laing be substituted for those of Messrs. Lewis and Lamoureux on the Sessional Committee on Railways, Air Lines and Shipping.

TUESDAY, November 27, 1962.

Ordered,—That the name of Mr. Grégoire be substituted for that of Mr. Caouette on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, November 27, 1962

(11)

The Committee met at 11.00 a.m., this day. The Chairman, the Honourable W. Earl Rowe presided.

Members present: Messrs. Addison, Badanai, Beaulé, Benidickson, Carter, Chevrier, English, Fairweather, Fisher, Foy, Laing, McDonald (*Hamilton South*), Ouellet, Pascoe, Prittie, Pugh, Rideout, Rinfret, Rouleau, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(22).

In attendance: The Honourable Léon Balcer, Minister of Transport; from *Trans-Canada Air Lines*: Mr. G. R. McGregor, President, Mr. W. S. Harvey, Vice-President, Finance, and Comptroller, Mr. H. W. Seagrim, Senior Vice-President, Operations, Mr. R. C. MacInnis, Director of Public Relations, and Mr. A. J. Gauthier, Area Manager, Government and Public Relations.

The Chairman introduced Mr. McGregor and the other officials of T.C.A.

The Chairman called for consideration of the Annual Report of the Trans-Canada Air Lines for 1961. After discussion, the Committee agreed that the Report be read and Mr. McGregor made a general statement.

The financial section of the report was read and discussed at length.

By consent, Mr. Grégoire questioned the witness.

Consideration of the Annual Report still continuing, at 12.40, the meeting adjourned to meet again at 3.00 p.m. this day.

AFTERNOON SITTING

(12)

The Committee reconvened at 3.20 p.m.. The Chairman, Honourable W. Earl Rowe, presided.

Members present: Messrs. Addison, Badanai, Beaulé, Carter, English, Fisher, Foy, Grégoire, Laing, McDonald (*Hamilton South*), Ouellet, Pascoe, Prittie, Pugh, Rideout, Rinfret, Rouleau, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(20).

In attendance: The same officials as are listed in attendance at the morning sitting.

The Chairman called the meeting to order and the Committee resumed its examination of the following sections of the Annual Report: *Tariff Changes*, and *Service and Traffic Growth*, which were carried.

At 5.40 p.m., the meeting adjourned until Wednesday, November 28th, at 9.30 a.m.

WEDNESDAY, November 28, 1962

(13)

The Committee met at 9.30 this day. The Chairman, Honourable W. Earl Rowe presided.

Members present: Messrs. Badanai, English, Fairweather, Fisher, Laing, McDonald (*Hamilton South*), Pascoe, Prittie, Rideout, Rinfret, Rowe, Smith (*Simcoe North*), Smith (*Calgary South*).—(13).

In attendance: The Honourable Léon Balcer, Minister of Transport; from *Trans-Canada Air Lines*: Mr. G. R. McGregor President, Mr. W. S. Harvey, Vice-President, Finance and Comptroller, Mr. H. W. Seagrim, Senior Vice-President, Operations, Mr. R. C. MacInnis, Director of Public Relations, and Mr. A. J. Gauthier, Area Manager, Government and Public Relations.

In answer to questions asked at the previous meeting, the President, Mr. McGregor read a prepared statement.

The Committee continued its examination of the following section of the Annual Report of the *Trans-Canada Air Lines: Equipment and Facilities*.

At 11.00 the consideration of the Annual Report still continuing, the meeting adjourned to meet again at 3.00 p.m. this day.

AFTERNOON SITTING

(14)

The Committee reconvened at 3.45 p.m. The Chairman, Honourable W. Earl Rowe presided.

Members present: Messrs. Badanai, Beaulé, Benidickson, Carter, Chevrier, Fairweather, Fisher, Laing, McDonald (*Hamilton South*), Ouellet, Pascoe, Prittie, Pugh, Rideout, Smith (*Simcoe North*), Smith (*Calgary South*).—(17).

In attendance: The same officials as are listed in attendance at the morning sitting, as well as Mr. J. A. de Lalanne, Chartered Accountant.

The Committee continued its examination of the Annual Report of the *Trans-Canada Air Lines, Equipment and Facilities*, which was carried.

At this stage, the Chairman read and tabled a letter dated November 28, 1962 received from Mr. Donald Gordon, Chairman and President of the C.N.R., forwarding "a list covering senior and upper middle-management positions held by French-speaking Canadians in the system (see *Appendix A to this day's Minutes of Proceedings*).

The Committee concluded its examination of the Annual Report of T.C.A., sections: Board of Directors, Personnel, Outlook, which were carried.

On motion of Mr. Chevrier, seconded by Mr. Laing,

Resolved,—That the Annual Report (1961) of *Trans-Canada Air Lines* be carried.

On motion of Mr. Pascoe, seconded by Mr. Smith (*Simcoe North*),

Resolved,—That the Capital Budget for 1962 of *Trans-Canada Air Lines* be carried.

The Chairman tabled the Auditor's Report to Parliament (1961) on *Trans-Canada Air Lines*, Mr. J. A. de Lalanne was called and was questioned.

On motion of Mr. Ouellet, seconded by Mr. Rinfret,

Resolved,—That the Auditor's Report to Parliament on Trans-Canada Air Lines (1961) be carried.

On motion of Mr. Carter, seconded by Mr. Smith (*Calgary South*),

Resolved,—That the financing requirements of Trans-Canada Air Lines included in the Capital and Operating Budgets of the Canadian National Railways (1962) be carried.

The Committee congratulated Mr. McGregor on the presentation of his Annual Report and on the services supplied by Trans-Canada Air Lines.

After discussion, on motion of Mr. Carter, seconded by Mr. Prittie,

Resolved,—That item 80 of the Revised Estimates (1962-63):

Newfoundland Ferry and Terminals \$6,552,500.00 be carried.

On motion of Mr. Laing, seconded by Mr. Smith (*Calgary South*),

Resolved,—That item 85: Prince Edward Island Car and Ferry and Terminals \$3,359,000.00 be carried.

On motion of Mr. Fisher, seconded by Mr. Benidickson,

Resolved,—That item 100: Maritime Freight Rates Act \$13,975,000.00 be carried.

The Chairman was authorized to report back the said Items to the House.

At 5.13 p.m., the Committee adjourned to the call of the Chair.

Marcel Roussin,
Clerk of the Committee.

APPENDIX A

Canadian National Railways
Donald Gordon, Chairman and President

Montreal, Quebec,
28 November, 1962.

Honourable W. Earl Rowe
Chairman
Sessional Committee on Railways, Air Lines and Shipping
House of Commons
Ottawa, Ontario

Dear Sir:

During our telephone conversation of yesterday, you indicated that at the meeting of the Committee dealing with the affairs of Trans-Canada Air Lines, Mr. G. R. McGregor had submitted a list which he describes as being a representative list of senior French-speaking employees of that Company. In response to your inquiry of today as to whether it would be possible to provide similar information covering Canadian National Railways, I am attaching a list covering senior and upper middle-management positions which are held by French-speaking Canadians. On the entire System of Canadian National Railways, the senior and upper middle-management group totals approximately 1,000 positions. The list attached numbers 132 positions, or 13 per cent of the selected management group. In other words, 13 per cent of the top echelon of the management of the Canadian National Railway's System operations is held by French-speaking Canadians.

Perhaps it would be helpful if I made one or two comments on the make-up of the list and the range it covers. As I indicated previously to the Committee, our basic personnel records do not disclose racial origin, since it is specifically prohibited by the Fair Employment Practices Act that any person seeking employment be required to identify racial origin, religion, and colour.

In order to construct the list, therefore, we had recourse to supplementary data records showing amongst other things those who are fluent in the French language. From this list we selected the names which appeared to be of French origin. The attached list, therefore, is not all-inclusive; it excludes, for example, some who were born in the Province of Quebec and are bilingual. The range includes senior line administrative officers, men of technical and professional attainments, and staff specialists spanning the whole field of managerial activity. By way of illustration, the area manager, Quebec, is responsible, generally speaking, for all Railway activities in his territory, and in particular bears primary responsibility for the effectiveness of operations, sales, industrial development, accounting, and personnel management. The General Manager, St. Lawrence Region, directs the activities of the four areas which comprise the region and bears primary responsibility for operating expenditures in excess of \$100 million annually.

The list of officers in the Annual Report for 1961 does not adequately reflect the allocation of responsibility and authority under the new form of organization. The 1962 Annual Report will attempt to do so.

I hope that the foregoing information will be of assistance to the Committee.

Yours respectfully,
D. Gordon.

ST. LAWRENCE REGION

Position	Location
General Manager	Montreal
Assistant to Vice-President and General Manager	Montreal
Manager Industrial Development	Montreal
Manager Real Estate	Montreal
Public Relations Manager	Montreal
Assistant Public Relations Manager	Montreal
Assistant General Claims Agent	Quebec
Associate Passenger Sales Manager	Montreal
Assistant General Superintendent Transportation	Montreal
Regional Mail and Baggage Agent	Montreal
Transportation Assistant	Montreal
Training and Special Projects Engineer	Montreal
Projects Engineer	Montreal
Sales Promotion Officer	Montreal
Assistant Freight Sales Manager	Montreal
Analytical Services Officer	Montreal
Area Manager	Quebec
Assistant Area Manager	Quebec
Office Supervisor	Quebec
Solicitor	Quebec
Operations Manager	Quebec
Superintendent Transportation	Quebec
Assistant Superintendent	Quebec
Chief Dispatcher	Quebec
Assistant Superintendent	Jonquiere
Master Mechanic	Quebec
Industrial Agent	Quebec
Transportation Officer	Quebec
Trainmaster	Joffre
Chief Dispatcher	Levis
Chief Dispatcher	Senneterre
Assistant Superintendent	Senneterre
Assistant Area Engineer	Quebec
Assistant Engineer Maintenance of Way	Quebec
Assistant Engineer Maintenance of Way	Quebec
Superintendent Equipment	Quebec
Assistant Superintendent Car Equipment	Quebec
Area Sales Manager	Quebec
Passenger Sales Manager	Quebec
Area Comptroller	Quebec
Employee Relations Supervisor	Quebec
Industrial Agent	Quebec

ST. LAWRENCE REGION (Continued)

Position	Location
Assistant Superintendent	Quebec
Trainmaster-Road Foreman	Montreal
Assistant Chief Dispatcher	Montreal
Chief Dispatcher	Montreal
Assistant Superintendent	Montreal
Superintendent Equipment	Montreal
Trainmaster	Montreal
General Agent Highway Services	Montreal
Trainmaster	Montreal
Chief Dispatcher	Montreal
General Foreman Car Equipment	Montreal
Trainmaster	Montreal
Employee Relations Supervisor	Montreal
Assistant Area Manager	Montreal
Superintendent Montreal Yard	Montreal
General Agent, Express	Quebec
Labour Relations Officer	Montreal
Personnel Assistant	Montreal
Supervisor Freight Data Processing	Montreal
Assistant Supervisor Car Equipment	Montreal
Inspector, Maintenance of Way	Montreal
Shop Foreman, Work Equipment Shop	Montreal

ATLANTIC REGION

Position	Location
Special Assistant, Highway Services	Moncton
Assistant Superintendent, Equipment	Moncton
Area Manager	Campbellton
Superintendent, Transportation	Campbellton
Assistant Superintendent	Levis
Trainmaster	Edmundston
Assistant Superintendent	Riviere du Loup
Trainmaster	New Carlisle
Assistant Chief Train Dispatcher	Campbellton
Sales Manager	Campbellton
Area Comptroller	Campbellton

GREAT LAKES REGION

Position	Location
Real Estate Inspector	Toronto
Work Study Analyst	Toronto
Operations Manager	Capreol
Roadmaster	Cochrane
Instructor of Enginemen	The Pas

HEADQUARTERS

Law

Position	Location
General Counsel	Montreal
Regional Counsel	Montreal
Solicitor	Montreal
Assistant General Solicitor	Montreal
Supervisor Workmen's Compensation	Montreal

Research and Development

Position	Location
Special Projects Officer	Montreal
Senior Work Study Analyst	Montreal
Senior Work Study Analyst	Montreal
Senior Work Study Analyst	Montreal
Sr. Operational Research Analyst	Montreal
Assistant Research Engineer	Montreal
Special Representative	Montreal

Public Relations

Position	Location
Supervisor Display Advertising	Montreal
Chief Translator & French Editor	Montreal
Manager French Services	Montreal

Hotels

Position	Location
Manager Charlottetown Hotel	Charlottetown

Engineering

Position	Location
Senior Mechanical Assistant	Montreal
Mechanical Assistant	Montreal
Architectural Designer	Montreal
Mechanical Assistant	Montreal
Assistant Architect	Montreal
Electrical Assistant	Montreal
Senior Assistant Architect	Montreal
Structural Engineer	Montreal

Motive Power and Car Equipment

Position	Location
Chief Mechanical Engineer	Montreal
Mechanical Engineer	Montreal

Sales

Position	Location
Manager Freight Sales Development	Montreal
Freight Statistics Officer	Montreal
Agriculture Development Officer	Montreal
Asst. Manager Passenger Promotion	Montreal
General Sales Manager—Passenger	Montreal
Manager—Mail & Baggage Traffic	Montreal

HEADQUARTERS (Cont'd)

Accounting and Finance

Position	Location
Supervisor Budgets	Montreal
Senior Methods Analyst	Montreal
Senior Methods Analyst	Montreal
Internal Audit Supervisor	Montreal
Senior Methods Analyst	Montreal
Projects Manager—Data Processing	Montreal
Analyst, Data Processing	Montreal

Medical

Position	Location
Station Medical Officer	Dorval
Medical Officer	Montreal

President's Office

Position	Location
General Assistant	Montreal

Personnel and Labour Relations

Personnel Assistant	Montreal
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Investigation

Inspector of Investigation	Montreal
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Highway Services

Special Assistant	Montreal
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Telecommunications

Position	Location
Superintendent	Montreal
District Sales Supervisor	Montreal
Revenue Accountant	Montreal
Asst. Superintendent (Operations)	Montreal
Plant Supervisor	Montreal
Superintendent	Toronto
Manager, Telecommunications Dept.	Quebec

EVIDENCE

TUESDAY, November 27, 1962

The CHAIRMAN: Well, gentlemen, will you please come to order. I see we have a quorum. The clock in this room is not running according to Hoyle. According to it we are a little early, but according to the right time we are a little late. We are here this morning to deal with the annual report of Trans-Canada Air Lines for 1961.

Mr. GREGOIRE: Before we begin, Mr. Chairman, may I make a statement in regard to the adoption of the Canadian National Railways' report on Friday?

The CHAIRMAN: You may do so only with the permission of the committee. After all, we went through that report.

Mr. GREGOIRE: Then may I have permission of the members here?

The CHAIRMAN: You are not a member of this committee.

Mr. GREGOIRE: I was nominated as a member of this committee, but a substitution was made because I could not be here. And today, as Mr. Caouette is not here, I am substituting for him.

The CHAIRMAN: Mr. Gregoire is not a member of this committee.

Mr. FISHER: May I ask Mr. Gregoire a question?

The CHAIRMAN: Yes, Mr. Fisher.

Mr. FISHER: Are these views your opinions which you want to express, at this time, or are they matters which you could bring to the committee when it comes to consider its own report on the Canadian National Railways' report?

Mr. GREGOIRE: What is that again?

Mr. FISHER: This committee will be making its own report on the Canadian National Railways' report. Is it possible that your views might be better expressed at that meeting, which will be sometime in the future, after we have finished with the T.C.A.?

The CHAIRMAN: Or in the house?

Mr. GREGOIRE: Well, I might do it then, but I thought on Friday the committee had adopted the report.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, since we are dealing with the T.C.A. today, I think we should stick to our agenda. Then if Mr. Gregoire wishes to do something subsequently, he might do it in the house.

Mr. SMITH (*Calgary South*): Yes, and he could be placed on the committee so that the matter could be considered in the committee's report.

Mr. GREGOIRE: You mean here in this committee when the adoption of the whole report is considered?

Mr. SMITH (*Simcoe North*): I think that would be the logical time.

The CHAIRMAN: Very well. Let us proceed.

Mr. ROULEAU: Mr. Chairman, I would like to clear up a situation. Since Mr. Gregoire does not seem to be a member of this committee and since he is only representing Mr. Caouette this morning, and in view of the fact that he is not a member of the committee appointed by the House of Commons, do you consider that he might take part in the discussion?

The CHAIRMAN: Only with the permission of the committee.

Mr. FISHER: Mr. Chairman, we have a tradition in this committee that if people want to come in, the committee will give them permission to ask questions. This is usually done through one of the members of their own party.

The CHAIRMAN: Well, it is up to the committee.

Mr. SMITH (*Calgary South*): Mr. Chairman, the acoustics in this room are not terribly good. Might I ask what the question was, and what was said?

The CHAIRMAN: Mr. Rouleau asked whether one who was not a member of the committee might ask questions, and Mr. Fisher said it has been a more or less traditional custom to allow a certain degree of leeway, because if someone who was not a member of the committee wanted to ask a question, he might do so through someone else who was a member of the committee. I think there has been a certain amount of leeway given in that regard, but he would have to have the consent of the committee. In other words, if you, as members of the committee, do not wish to allow anybody to ask a question, then he may not do so. But there has been a certain amount of leeway afforded.

Now then, on the report, we have with us representing the T.C.A. Mr. Gordon McGregor, the President; Mr. W. H. Seagrim, Senior Vice-President, Operations; Mr. W. S. Harvey, Vice President, Finance and Comptroller; Mr. H. D. Laing, General Auditor and Mr. N. E. Taylor, Chief of Economic Research. We also have in attendance Mr. R. C. MacInnis, Director of Public Relations, and Mr. A. J. Gauthier, Area Manager, Government and Public Relations.

Now we have before us the Trans-Canada report. It is not very long. I presume you have all read it. Shall we take it as read, and then proceed with it section by section?

Mr. SMITH (*Calgary South*): Mr. Chairman, I think that has been the usual suggestion, unless Mr. McGregor desires to offer some comment prior to our proceeding with the report section by section. But before we begin our labours, I want to offer my congratulations to Mr. McGregor,—and I am sure every member of the committee will agree,—and not only to welcome back our president as a witness, but also to welcome him back in good health, because I know that a year ago he was not a well man.

The CHAIRMAN: Yes. I know Mr. Smith expresses the wishes of the committee, and their pleasure in seeing you once more in hale and hearty shape. We know you have nothing to worry about now.

Mr. PRITTE: May I suggest before Mr. McGregor begins that, since this report is more than a year old, he might refer to the 1962 operations and to the present position.

The CHAIRMAN: I believe that would be summarized under the general outlook.

Mr. G. R. MCGREGOR (*President of Trans-Canada Air Lines*): Mr. Chairman, let me first of all thank the committee for their best wishes. And as has been said, the acoustics in this room are not good. We have with us today a team which I think can answer any question on the T.C.A.'s 1961 activities fully and if not, they can certainly get the information. We have no desire to dissemble or hold back any information. I hope the questions will be based on that footing.

Like most other industries, aviation has its own jargon. I may fall into the trap from time to time, from force of habit, of using phrases which are specific to the industry; but if I am not clear, I hope you will interrupt me and say you would like to have an explanation of some term I might use. Some of these things look fairly innocent, but have different meanings in the usual aviation connotation. I think that is all I would like to say.

The CHAIRMAN: Thank you, Mr. McGregor. Shall we now take the report as read? I think you have all read it.

Mr. CHEVRIER: Mr. Chairman, might I make a suggestion: We fell into a trap, it seems to me, the other day with reference to the Canadian National Railways' report by not reading it, as we did in the past. It think it is far preferable if a paragraph or section, or even one of the sentences, should be read, and then for us to proceed to ask questions on it. Otherwise, we are going to be caught in the same way that we were in reference to the Canadian National Railways' report, when under every section we will be discussing everything. It seems to me that that was the practice last year and the year before, and my suggestion is that we follow that practice now.

The CHAIRMAN: Personally I am 100 per cent in agreement with what Mr. Chevrier has said. I think if the committee is satisfied to proceed that way, it would be more orderly, if you wanted to take the whole report. We would practically do that anyway; but I think it would be a good idea, if Mr. McGregor would read the section under "financial", and then for us to proceed with our questions on it, and to deal with it precisely.

Mr. MCGREGOR: Thank you. I shall begin with the text on page 5. As you will see, the report is dated February 28, and addressed to the Minister of Transport.

Mr. CARTER: Mr. Chairman, before Mr. McGregor begins, perhaps he might care to give us the highlights of his report.

The CHAIRMAN: It is not very long, and I think that if Mr. McGregor reads it it would be better. You are all busy men on this committee, and you might not wish to say that you had not read the report fully. I think if he reads it, we can keep to the points better than if it were not read. I believe Mr. Chevrier's suggestion is that Mr. McGregor should read it.

Mr. CARTER: I did not understand the suggestion to be that he continue reading.

Mr. RIDEOUT: Let us get on with it.

Mr. MCGREGOR:

Financial

This was a paradoxical period of airline operations in which record traffic volume was accompanied by the largest deficit in the company's history. A new domestic fare structure proved immensely popular and there was a heavy increase in passenger business. Simultaneously, however, passenger demand shifted so emphatically towards economy class service that there was a pronounced deteriorating effect on the company's average revenue realized per passenger mile, this declining from 6.25¢ in 1960 to 5.81¢ in 1961. While 44 per cent of the company's passenger traffic had been economy class in the previous year, and an increase to 69 per cent had been forecast, the actual figure rose to 79 per cent. The revolution in travelling habits more than offset the company's achievement of substantial economies as evidenced by a very satisfactory reduction in operating cost per available ton mile from 36.72¢ to 31.30¢. Obviously this discrepancy between revenues and expenses requires remedial action.

The year's deficit amounted to \$6,450,082.

Acquisition of larger and faster aircraft resulted in a capacity increase of 24 per cent in seat miles. When it is considered that a single aircraft of the speed and size of a DC-8 can do the work of four Super Constellations, some appreciation can be gained of the very great increase in airline productivity made possible by the introduction of the modern equipment.

Passenger miles grew by 21 per cent. This compared well with the experience of the United States trunk airlines whose aggregate traffic increase was only 1 per cent in 1961. Because of the much greater capacity offered, the system passenger load factor declined to 64 per cent from the 66 per cent of the previous year.

Another noteworthy effect of the revised fare structure, which offered its principal benefits on the longer routes, was the lengthening of the average domestic passenger journey from 498 miles in 1960 to 556 miles in 1961.

Income before interest expense was \$4,061,251.

The development of a more productive aircraft fleet was reflected in the substantial rise in costs associated with its acquisition and ownership. Depreciation expenses were up by \$6,200,000, net interest on borrowed capital by \$4,800,000 and insurance charges by \$1,700,00. These items, taken together, represented at 67 per cent increase in ownership costs.

Capital expenditures totalled \$40,500,000, of which \$26,600,000 involved new aircraft and \$13,900,000 was required for associated ground facilities.

There was an increase in the productivity of personnel, assisted by the larger, faster aircraft. While available ton miles rose by 29 per cent, the average number of employees increased by only 5 per cent. Total payroll was up 7 per cent.

Aircraft introductory costs incurred in 1961 to the amount of \$2,149,000 will be amortized over four years.

Mr. CHEVRIER: Mr. Chairman, may I ask the president a question arising out of the statement on page 5, "The year's deficit amounted to \$6,450,082." Can the president tell the committee the reasons for this substantial deficit, the reason for the substantial increase over last year's deficit, and also how this deficit compares with comparable airlines?

Mr. MCGREGOR: It is a sort of triple-barrelled question. I will start at the beginning with what we consider to be the reasons. As in most cases of either a profit or deficit, there were several conditions which contributed to the net result of \$6,400,000. We estimate up to \$5.3 million of net revenue was lost to T.C.A. through the operation by C.P.A. of one trans-continental flight per day. It is always chancy to make an estimate of this kind, because while we have a pretty good idea of what the gross revenue was it is impossible to say that all that revenue would have derived to T.C.A. had the C.P.A. operation not taken place. We have thought that it is reasonable to expect that between 80 and 90 per cent of that revenue would have derived to T.C.A. Furthermore we do not associate much in the way of operating cost with carrying it if we had had that business, because owing to the very low load factor we operated on in 1961, there was plenty of room for the traffic on T.C.A. which was carried by C.P.A. on the trans-continental flight. Therefore, the only additional expense would be the cost of ticketing and providing meals and other expenses directly associated with passenger handling.

There were other things in play. Two foreign carriers, Air France and Lufthansa, were given the right to fly non-stop direct services between Montreal and Chicago. This is associated with the terms of the bilateral agreements between the governments, in this case involving three, the native country, West Germany and France on the one hand, and on the other hand Canada and the United States. I will not bore you with a description of the fifth freedom, but the net result is that neither Canada nor the United States can operate non-stop flights between Montreal and Chicago, but these two foreign carriers can do so and since they are extensions of trans-atlantic flights they are allowed to serve such amenities as alcoholic beverages on the Chicago-

Montreal leg. This makes the service to some people more attractive than our competing service which has an enforced stop at Toronto between Montreal and Chicago. We think that this represented a \$0.4 million loss in revenue.

The other thing has already been referred to, namely, the new passenger domestic tariff which went into effect on January 2, 1961. I would be the first to admit that that tariff was badly conceived. Its principal purpose was to reduce the cost of air travel within Canada, and it did that. In fact it perhaps overdid it. It did something else that we did not expect, to the extent that it occurred; that is, it drove a heavy percentage—about 80 per cent—of the total traffic into economy service. From the figure of 66 per cent for first class the year before it dwindled to 23 per cent. We thought there would be some result of that kind, but not to the extent that actually occurred. The effect, of course, was to beat down the domestic yield per average revenue passenger mile by 8 per cent from the figure that applied in 1960. You can say this is T.C.A.'s own fault, and it is; but it is not easy to estimate how the public will react to a tariff change.

I know that you would want me to confine myself to 1961, because this is the report we are dealing with. However, you will find last year in the report that we forecast a need for a change in respect of the domestic passenger tariff, and we did this in April, 1962. The effect was designed to close the gap that existed between first class and economy fares. I think it has done that very effectively.

Another feature which worked to the detriment of the company in 1961 was the late delivery of the Vanguard aircraft. Now, you may have read some of our boastful advertising in 1960 to the effect that we were going to be the first all-turbine air line in the Western world in 1961. But, we were not quite on time, primarily because the Vanguard deliveries were substantially late, owing to the difficulty that the Rolls Royce Company encountered with the engines during their development period. It was not the fault of the air-frame manufacturer. As a result, this drove us into the continued use of some of our old piston engined aircraft, notably the Super Constellations. Furthermore, we had phased out the Super Constellations so that they were coming to the end of their engine overhaul life at about the time they were to be replaced with Vanguards. When we found that we had to extend substantially their period of service we had to have a lot of expensive overhauling done in connection with the Super Constellations.

Of course, the other contributing thing, which is a by-product rather than otherwise, was the decrease in load factor which dropped below our break even load factor under the conditions which existed in 1961.

Mr. SMITH (*Calgary South*): Mr. Chairman, I have a further question.

Mr. CHEVRIER: Mr. Chairman, I have dealt only with my first question.

In order to shorten it, does the answer you have given to the first question apply equally to the second question, which was: what is the reason for the rather substantial increase in the deficit in 1961 over 1960?

Mr. MCGREGOR: Yes. I think all I have said applies both to the deficit and to the increase from 1960.

Mr. CHEVRIER: My third question was, how does this compare with comparable air lines elsewhere?

Mr. MCGREGOR: In so far as the information we have is concerned I think actually we suffered, if anything, less than other carriers. Perhaps an answer in the aggregate would be satisfactory; if not, I would give the specific air lines, namely: American, Braniff, Capital, Continental, Delta, Eastern, National, Northeast, Northwest, T.W.A., United and Western. Their domestic net earnings in 1960 aggregated \$1,190,000; their domestic deficit in 1961 aggregated \$34,274,000.

Mr. CHEVRIER: How many air lines did you mention?

Mr. MCGREGOR: Twelve.

Mr. CHEVRIER: Then, it has been suggested that the reason for the deficit is the cost of maintaining and upkeeping the larger aircraft such as the DC-8. What is your comment on that.

Mr. MCGREGOR: I disagree entirely on that comment because our unit costs have come down very substantially in 1961 from 1960. There is nothing more efficient that we know of than the DC-8 in the matter of moving a seat. As has been said, that the trick is to have a passenger in every seat, and there were not all these—

Mr. CHEVRIER: Passengers or seats?

Mr. MCGREGOR: But, as I indicated, dollarwise, there is nothing more efficient than the DC-8.

Mr. SMITH (*Calgary South*): Mr. McGregor, you have indicated to us, on the basis or the factors involved which you mentioned, that \$5,300,000 was an amount which conceivably could have been revenue had it not been for the complete Canadian Pacific Air lines run. However, in last year's minutes Mr. Seagrim of T.C.A. indicated to us that was \$5,800,000 a year ago. What about the forecast of a year ago? I ask this question because, in the committee evidence of a year ago at several points—one is 508—you indicated to us you would be able to calculate or estimate more accurately your net revenue or losses, and I gather that the factor which you have indicated in the report, the change in economics as between first class passage and economy class is the basic reason you are not able to calculate more accurately. Is this true?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): What about your interest on loans?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): You did not make any reference to that as I recall it.

Mr. MCGREGOR: I did in the section of the report that I read.

Mr. SMITH (*Calgary South*): But is it not perhaps even a more important factor than the other two items you mentioned?

Mr. MCGREGOR: No.

Mr. SMITH (*Calgary South*): The amount is about \$10 million?

Mr. MCGREGOR: Yes, \$10½ million total.

Mr. McDONALD (*Hamilton South*): An increase of \$2,400,000?

Mr. SMITH (*Calgary South*): I have in front of me a report which would indicate that several competitive air lines on this continent carry a very much smaller amount of interest on their loans in relation to their full operating profit. For instance, Pan-American, with an operating revenue of \$460 million, have a net interest of about \$16 million; whereas T.C.A., with \$165 million, have a \$10 million weight to carry. Is this an even more important factor than you have indicated?

Mr. MCGREGOR: No, I do not think so. We have the separate cost per ton-mile in connection with each factor of the cost of operation, including interest—and our interest cost is not out of line. I think one of the reasons the totals for some of the very big carriers in the States are lower is that a higher proportion of their fleet has been under depreciation for a longer period of time and this has reduced their funded debt over the years. Although I do not propose to be an expert in the other fellows operations, in respect to

some of the American carriers they endeavoured to superimpose their jet fleets on top of their previous turbo prop and piston fleets, and they produced some shockingly low load factors.

Mr. SMITH (*Calgary South*): I think that what has been most surprising to some of the members of the committee and a great concern to the management of your company as well is that, although it was indicated to us—and I think I am being fair to Mr. Seagrim when I say this—that much of the cost, of course, was the conversion factor of a year ago—and this is understandable—we end up with a \$6 million deficit. Secondly, you again indicate the diversion of the revenues because of Canadian Pacific Air Lines competition. A year ago, before this committee, Mr. Seagrim indicated the diversion of moneys because of C.P.A. competition was \$5.8 million. This year you indicate \$5.3 million.

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Is it not basically true that the information which I have obtained from these air lines does conflict with yours—although I accept your figures—these air lines being, American, Delta, Northwest and Pan-Am, and that their figures do look better for this year?

Mr. MCGREGOR: Do you mean 1962?

Mr. SMITH (*Calgary South*): Yes.

Mr. MCGREGOR: So are we.

Mr. SMITH (*Calgary South*): But they are showing a profit at the same time in five of them.

Mr. MCGREGOR: I doubt this, but I could find out. However, I would like to make a point. The trouble with the forecast in 1961 had nothing whatever to do with expenses, interest or otherwise. Our total operating costs in 1961 were almost dead on the forecast. Our trouble in 1961 was entirely due to failure to achieve the estimated amount of revenue, hence we ended up with a deficit.

Mr. SMITH (*Calgary South*): This is where you refer to the principal factor being the miscalculation in revenue as between first class and economy traffic?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Then this is the basic reason for the miscalculation?

Mr. MCGREGOR: That is correct.

Mr. PRITTIE: Mr. Chairman, Mr. McGregor has given us the figure of \$5,300,000 as the lost revenue to Air France and Lufthansa. I should like to know what this means in terms of net deficit or profit as the case may be. I should like to know what the deficit might have been without that loss.

Mr. MCGREGOR: In regard to that specific loss I would subtract that figure from the \$6,400,000. I should say that we feel 90 per cent of this business could have been carried by Trans-Canada Air Lines had that competition not existed.

Mr. PRITTIE: What would your deficit have been?

Mr. MCGREGOR: I expect it would have been \$1,100,000.

Mr. ROULEAU: Mr. Chairman, I should like to ask Mr. McGregor one or two questions. I do not wish him to feel that the implication of my questions is in any way a reflection upon him.

I was surprised to note that of the seven officers of the company there are no French speaking Canadians who have been called upon to serve the company. Mr. McGregor, do you think it would be possible to secure the services of some competent French speaking Canadians to act on the board of directors of

T.C.A.? Do you not feel that the appointments to the board of directors of a crown corporation such as T.C.A. should reflect the fact that an important segment of our population is French speaking?

Mr. MCGREGOR: Mr. Rouleau, there are quite a few French speaking Canadians included in the list of management of T.C.A. We do not keep our personnel records by, shall I say, the mother tongue of the individual's parents. We do keep very detailed records of our bilingual personnel. I think it is true to say that a very large proportion of our bilingual Canadians are bilingual with French as their mother tongue. Those individuals apparently have a much greater aptitude in respect of learning English than vice versa. However, I should like to read you a list of names and titles of people employed by T.C.A. whose mother tongue is French.

Mr. R. C. Baudru, assistant to senior vice president Operations—
Montreal.

Mr. R. M. Giguere, flight operations manager, Winnipeg.

Mr. E. Patrault, regional maintenance superintendent, Toronto.

Mr. A. Bruneau, regional maintenance superintendent, Moncton.

Mr. P. E. Lamoureux, materials and process engineer, Dorval.

Mr. L. C. DesBois, assistant solicitor, Montreal.

Dr. J. Violette, medical officer, Dorval.

Mr. A. J. Gauthier, area manager, government and public relations, Ottawa.

Mr. C. Gregoire, area manager, public relations, Montreal.

Mr. McDONALD (*Hamilton South*): Is there any relation, Mr. Gregoire?

Mr. GREGOIRE: No.

Mr. MCGREGOR: The list continues:

Mr. J. Lepottier, public relations representative, Dorval.

Mr. G. R. Perodeau, district commercial manager, Montreal.

Mr. P. L. Jerome, district commercial manager, Paris.

Mr. H. Dansereau, district commercial manager, Quebec City.

Mr. G. H. Lesage, station operations manager, Dorval.

Mr. R. J. Alain, airport passenger office manager, Dorval.

Mr. J. A. W. LaLonde, manager, job evaluation, Montreal.

Mr. W. R. Larue, employment interviewer, Montreal.

Mr. F. R. Laflamme, cargo sales manager, Montreal.

Mr. F. St. Hilaire, chief purser, overseas region, Dorval.

Mr. L. G. Corbeil, security officer, Dorval.

There are some 26 per cent of T.C.A. recruited employees who are bilingual, using that term as applied to French and English only.

I could give you a breakdown by province if you like. There are 2,513 in Quebec, or 51 per cent of our total number of employees in that province who are bilingual; in Ontario there are 155 or 7 per cent; in New Brunswick, 15, or 13 per cent, so out of a total number of 10,825 there are 2,838 French speaking or 26 per cent. I think the national average of French and English speaking individuals is about 12 per cent.

Mr. ROULEAU: I am very pleased to hear the statement you have just made, Mr. McGregor, but do you not think it is possible for French speaking Canadians to occupy positions as officers of this company? I am convinced there are French speaking Canadians capable of serving in this capacity.

Mr. MCGREGOR: I am quite sure there are French speaking individuals who are capable of holding these positions. I should point out that Trans-Canada Air Lines is 25 years old this year and during my experience with

the company, which extends over 16 or 17 years, there has only been one retirement of a vice president. That was Mr. W. F. English who retired about six years ago. That is the only vacancy in this regard owing to retirement, death or resignation.

Mr. PRITTIE: Mr. McGregor, is it likely that some of these French speaking Canadians you have named will be promoted to these higher positions at some time in the future?

Mr. MCGREGOR: Yes, that situation is likely. All I meant to suggest was that during the life of the company there has been virtually no turnover at what is referred to by Mr. Rouleau as the officer level.

Mr. PRITTIE: In any event some of those French speaking Canadians you have named will likely move up to fill those positions in the future?

Mr. MCGREGOR: I think that is likely.

Mr. CHEVRIER: Mr. Chairman, I just wanted to make the remark that this witness in answering that question was far more gracious in answering than was the witness we had before us last week.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I think that is an unfair statement, in view of the fact that this witness came before us with the knowledge that he would be asked this question. It was no surprise to him.

The CHAIRMAN: I do not think there should be any controversy in this regard.

Mr. CHEVRIER: I thought this was a complimentary statement, Mr. Chairman.

Mr. FISHER: Mr. Chairman, I am surprised at Mr. Chevrier saying that in view of the thoughtful things he said about Mr. Gordon last week. There does seem to be a paradox here.

Mr. CHEVRIER: Perhaps there is, Mr. Fisher.

Mr. BADANAI: Mr. Chairman, I should like to ask Mr. McGregor about his statement in regard to the miscalculation of tariff charges between economy and first class. I wonder whether Mr. McGregor would agree with me when I state that the tariff charges in respect of first class fares are too high as compared to economy fares?

Mr. MCGREGOR: I agree with you.

Mr. BADANAI: I suggest there is a difference of approximately \$600 in respect of the cost for a couple flying to Europe as between the economy and first class fare. Perhaps a better example is the difference in respect of a flight from Ottawa to Fort William. I suggest the difference in cost is approximately \$30. I think this difference is an extravagant difference.

Mr. MCGREGOR: First of all, let me say that I agree entirely with your criticism in respect of the relationship between the two fares. This difference is far more pronounced in respect of overseas travel than it is in respect of domestic travel. We have some control over domestic air fares but not over overseas tariffs. I think personally that the latter differential is ridiculous. The average man in a somewhat facetious manner will say that he cannot drink that much liquor crossing the Atlantic. There are other service differences, of course, mainly, from the air lines standpoint, a passenger occupies a great deal more deck space and has the use of a lounge. However, he travels the same number of miles, he takes off at the same time and lands at the same time. These facts result in the feeling by a great number of people that the differential is not representative. We have a lower load factor regarding space provided for first class than in the space provided for economy class, even though we have about 80 per cent of our space in economy class.

Mr. BADANAI: Who does set the tariffs now?

Mr. MCGREGOR: Are you referring to domestic or international tariffs?

Mr. BADANAI: I am referring to both, Mr. McGregor.

Mr. MCGREGOR: The international tariffs are arrived at by agreement in an organization called IATA, the international air transport association. We recommend the domestic tariffs and they either go into effect or are disapproved. Actually they are not specifically approved by the air transport board. If any disagreement with the proposed tariff filed by the company arises in the air transport board, then it must take the form of disapproval. These tariffs are not specifically approved. We did find this fault with our 1961 tariff and we did file a revised tariff in April of 1962, which had the specific effect of reducing the gap. There may be further to go yet in this area.

Mr. BADANAI: Have you no further reductions in the first class fares under consideration now?

The CHAIRMAN: I might suggest that we are on "tariff changes" now. We have finished with the financial statement.

Mr. BADANAI: I brought it up because the president mentioned a miscalculation in tariff charges. However, I will bring it up later.

Mr. MCGREGOR: I would like to clear up a point. What I did say was that we had not estimated accurately the effect of urging the travelling public into economy that we produced in the 1961 tariff.

Mr. SMITH (*Simcoe North*): The \$6 between Toronto and Ottawa would not make a difference.

Mr. MCGREGOR: It makes a difference on the longer haul.

The CHAIRMAN: I am only calling you the way I see you when you put your hands up in rotation. Mr. Pascoe is next, then Mr. Heber Smith, and then I see a lot of hands coming up.

Mr. PASCOE: Mr. Chairman, Mr. McGregor may have referred to this but I did not hear it in connection with the statement in regard to deficit. He mentioned the late delivery of the Vanguards. I wonder if there is any explanation for this, if T.C.A. could have taken any definite action to speed up this delivery.

Mr. MCGREGOR: I gave an explanation. It was a serious fault which developed in the engine prior to it being installed in the aircraft. The Rolls Royce people retarded the delivery program of engines until the engine was right in their estimation. I can read you the contract delivery dates and the actual delivery dates.

Mr. PASCOE: This is not necessary. I was only wondering whether you could do anything about it.

Mr. SMITH (*Calgary South*): My question is directly supplementary to Mr. Pascoe's question. You have indicated, sir, to us that one of the factors involved in the net loss was the late acquisition of the Vanguard. Your very excellent witness, Mr. Seagrim, a year ago acknowledged to the committee some difficulty which you had once you put those aircraft in service. Would it not be equally true that in addition to perhaps the late acquisition, the problems you had with the Vanguard, once they were put into service, must have been an important factor in the loss of operation revenue? I remember, as an example, the day that it was to arrive in my own city, with all the celebration going on and everyone saying that, the Super Constellation arrived in this place. I checked the number of deliveries and also the delays, and in the first month of operation you had only one or two flights on time. Must this have not had a serious effect on your revenue because people were not taking to that aircraft?

Mr. MCGREGOR: Indeed it did and it was primarily owing to the substitution of equipment which involved changeover of first class passengers to economy passengers and an automatic refund although the passengers were quite willing to pay the first class transportation.

Mr. SMITH (*Calgary South*): Have you any misgivings about buying that aircraft?

Mr. MCGREGOR: None. I have never known of a new aircraft used by any airline which did not give trouble or concern at first. I think the Vanguard exceeded the normal expectations in this line but not at all the way it did with its competitors.

Mr. SMITH (*Calgary South*): You suggested you have always had difficulty with pre-service testing, and in some instances in the first breaking-in period in service, but you had not, by comparison with the Viscount as an example, the same problem as you had with the Vanguard.

Mr. MCGREGOR: It is difficult to put a value on your words "by comparison". One aircraft is very much larger and more complicated than the other. We had difficulties with the Viscount, but we were not trying to do what the late deliveries forced us to do with the Vanguard which pitched it into service in the middle of the winter.

Mr. SMITH (*Calgary South*): Was there not another factor in that in most cases with the DC-8 you had an opportunity to have some other airline give them a pre-testing while with the Vanguard you did not have that opportunity?

Mr. MCGREGOR: No, but this was the original intention, that the Vanguard would be delivered to them before it was delivered to us.

Mr. SMITH (*Calgary South*): Mr. Seagrim indicated that the Vanguard pilots were absolutely happy with the Vanguard, and this is understandable.

Mr. MCGREGOR: Not if it is a bad airplane.

Mr. SMITH (*Calgary South*): I was going to ask you about the concern for the passengers. Has this been completely resolved, that it is a service without problems?

Mr. MCGREGOR: As free from problems as any airplane can be.

Mr. PASCOE: Mr. Chairman, this question has been pretty well answered. I have just one more question to clear up. On page 5 you refer to the economy passenger service and you also refer to a substantial economy by reduction in operating costs. Is there a relationship between economy flights and the reduction in operating costs?

Mr. MCGREGOR: I do not think so. The reduction in operating costs is quoted in terms of per available ton-mile. And it does not matter whether that available ton-mile is filled with cargo, mail, economy and first class passengers. The cost of producing the available ton-mile is not affected by how it is used in the form of payload.

Mr. PASCOE: This is a suggestion, Mr. Chairman, not a question. Mr. McGregor is going to be called upon to answer a great many questions and I wondered whether you would prefer to have someone else read the report so we could save his voice for answering.

Mr. MCGREGOR: It is a very kind thought.

The CHAIRMAN: My voice is not very good, but I could read the report.

Mr. FISHER: You were very good when you started reading the McCarthy report.

The CHAIRMAN: Are you through, Mr. Pascoe?

Mr. SMITH (*Simcoe North*): The increase in depreciation between 1960 and 1961 is \$6,250,000, roughly. How much of that is attributable to the purchase of new equipment, new airplanes?

Mr. MCGREGOR: All the increases are attributable to it.

Mr. SMITH (*Simcoe North*): Are any of them attributable to the accelerated write-off of the Constellation?

Mr. MCGREGOR: No.

Mr. SMITH (*Simcoe North*): There was no change in the system of depreciation between the two years?

Mr. MCGREGOR: Between 1960 and 1961, no.

Mr. SMITH (*Simcoe North*): So that the whole amount is attributable to the new purchases. The increase of interest of \$2,413,000, to what is that attributable?

Mr. MCGREGOR: The same reason.

Mr. SMITH (*Simcoe North*): Interest on the new purchases?

Mr. MCGREGOR: More capital invested in the business.

Mr. FISHER: One of the dilemmas with the railways is that they are required—this seems to have been agreed on by people who investigated the railway situation—to provide what is in effect public service in unremunerative areas. This throws a rider on the revenue process. It makes it ridiculous in any standard business efficiency. Is this a factor at all in the present set-up that you have, and if it is what are you doing about it?

Mr. MCGREGOR: From the purely financial results standpoint it is very definitely a factor with us. In fact, we have one or two routes that drift either side of financial break even, but basically speaking we only have two profitable routes, one is the transcontinental and the other is the transatlantic. All the rest are what have been called, for some reason I do not understand, "social routes". This was a term used in the Wheatcroft report which you may remember.

Mr. FISHER: After a long period of time the railways seemed to have made headway in getting recognition of the fact that when you hit this kind of public service situation or a "social route" applied to the railways, then it is up to the government to bear the difference between the cost of operation and the revenue. Is there anything of that in your policy, to achieve such a goal?

Mr. MCGREGOR: Not at the moment. We have felt that as long as our profitable routes were left to us, we could make enough money to carry the unprofitable ones. In other words, we felt that we could be the medium for cross-subsidization for some of these routes. I think it is perhaps not too clearly understood that many of these places that are now getting air service will probably always require subsidization in one way or another. A place in the prairies boarding two and a half passengers a day is a financially hopeless thing under any conceivable operation that any air line knows anything about.

Mr. FISHER: I wanted to make clear the responsibility that rests upon you and upon other air lines. In the railway world it is accepted that the Canadian Pacific suffers the same burden as the Canadian National in so far as its public service aspect is concerned. Is T.C.A. unique among Canadian air lines in that it is providing public service which can never be put into a profitable position, at least in the foreseeable future?

Mr. MCGREGOR: No, I think that C.P.A. too has some routes which they would be glad to see the end of, as we certainly have in much greater numbers. There is one point I would like to mention:—I do not know too much about

the railway situation, but I think that over the years the railways—certainly the Canadian National—have been required, under government directive, to operate unprofitable routes; while that has not been true of air lines.

The unprofitable routes which the air lines have—I think—come about by the air line's own seeking.

Mr. FISHER: If you withdrew more airplanes from this variable revenue run, for example, in this year before us, do you think it is conceivable that you might have come up with a black picture instead of a red one?

Mr. MCGREGOR: Very black, without the unprofitable routes. The air line would have shrunk, very greatly.

Mr. FISHER: This is an added factor in the analysis which you present to us, and it is the reason why in 1961 you have this deficit?

Mr. MCGREGOR: Yes, but it has been with us for so long I did not think it worthy to mention it in regard to the 1961 results particularly.

Mr. FISHER: I think it very worthy of mention when your organization is presenting to us a balance sheet.

The CHAIRMAN: You mean it is growing?

Mr. FISHER: I want to come back to what I think is the most interesting and tenuous thing before us. Mr. Smith was on to it, I think; but last year Mr. Broome went into the matter, and it is still very much alive and relevant because of a statement which Mr. McConachie made, and because of some suggestions you made which are in the public domain. I will put it again, and I think we would appreciate greater elaboration than Mr. Seagrim felt he could give to the committee last year.

At page 508 of the minutes of proceedings and evidence for Tuesday, June 27, 1961, Mr. Broome put it this way when he quoted from the Wheatcroft report as follows:

It could reasonably be assumed that, if the competitive service were limited in the manner suggested above, T.C.A. would regulate its own capacity to the balance of the demand. To do otherwise would be to court losses quite unnecessarily.

In a sense Mr. Smith asked you this question, and I think he was referring to Mr. McConachie's statement when he did so. The charge of C.P.A. is that T.C.A. made very bad adjustments of their routes in this particular area. I think we need a fuller explanation from you to stand as a denial.

Mr. SMITH (*Calgary South*): I made no charge. I was looking for information.

Mr. MCGREGOR: I would be glad to answer, gentlemen.

Mr. FISHER: It was Mr. McConachie who made the statement.

Mr. MCGREGOR: Mr. McConachie said that we have over supplied competitive routes. I do not admit that at all. As a matter of fact, over the specific flight legs which are applicable, namely, Vancouver to Winnipeg, Winnipeg to Toronto, and Vancouver to Toronto, they all extend from Toronto to Montreal, but that leg is neither here nor there; but on the principal duplicated legs, T.C.A. is operating a lower jet frequency over those specific legs than is C.P.A. Other T.C.A. transcontinentals serve Edmonton and Calgary, the Lakehead, and Regina, on what are basically transcontinental routes, not necessarily by DC-8 operations, but during the summer time we operate four and one half transcontinental flights, and we do not think we are over-serving the route. However C.P.A.'s idea of competition is that we move over and make room for them. But that is not our philosophy.

Mr. FISHER: You say that this is not your philosophy.

Mr. MCGREGOR: No.

Mr. FISHER: Then what about the adjustment of capacity to the balance of the demand? Is the demand growing in such a way that you are keeping your share or losing your share?

Mr. MCGREGOR: We are operating at a lower load factor today than is C.P.A., because primarily they have a fare differential in their favour in the economy class.

Mr. FISHER: Were they able to take unilateral action so far as fares are concerned?

Mr. MCGREGOR: I do not know of any case in aviation where identical services are being offered at two different fares. We increased our fares—our economy fares on the long haul—on April 1st, 1962, and we slightly decreased our first class fares in order to reduce the size of the gap between first and economy fares for the very reasons that have been mentioned.

We filed that 1962 tariff with the air transport board and at the same time provided C.P.A. with a copy of it. At first C.P.A. indicated agreement with the reasoning of the tariff, because it promised a somewhat higher yield and they proposed to go along with it. At the last minute they did not. The air transport board neither disapproved the new T.C.A. tariff nor did they forbid C.P.A. use of the old tariff. That is how this fare differential arose.

Mr. FISHER: What response can you make to their statement that their lower tariff is enabling them to cotton on to more growth developing in these particular routes.

Mr. MCGREGOR: You might think that the obvious response would be that we should equalize our fares with theirs. This would produce a net loss in revenue to T.C.A., coupled with the fact that in response to that threat C.P.A. said that if that was done, regardless of the economics, they would lower their fares below our new level. This is the beginning of an idiotic rate war.

Mr. FISHER: What is the solution in the interests of the public and of T.C.A.?

Mr. MCGREGOR: The minister arrived at what we in T.C.A. thought was a very reasonable suggestion. He wrote both T.C.A. and C.P.A. and said, "you people are operating two identical services across Canada at two different tariffs, will you move half way towards each others' fares"? He was asking C.P.A. if they would decrease their first class fares half way to our level and we would raise our first class fares half way to theirs. A similar question was asked in respect of the economy fares, but in this case we would have had to come down half way and they would have had to go up half way. T.C.A.'s answer was yes. C.P.A.'s answer I do not think has yet been given.

Mr. FISHER: Perhaps the minister would give it.

Hon. LEON BALZER (*Minister of Transport*): They simply did not accept.

Mr. SMITH (*Calgary South*): Was there a reply?

Mr. BALZER: There was a reply. They indicated that they wanted to stick to their present rates.

Mr. FISHER: It seems to me that there are two possibilities; either T.C.A. and C.P.A. sit down together and work something out or else the regulating body has to examine this and determine the merits of the case.

Mr. MCGREGOR: Yes. The first alternative you mentioned was adopted about a month ago. After some backing and filling and some discussions between Mr. McConachie and myself two teams were named. I believe there were three persons in each case, these teams represented T.C.A. and C.P.A. in

discussions. The term of reference was that they would endeavour to arrive at a mutually acceptable common tariff for trans-continental operations on the paralleled legs. The two teams met and reported to their respective managements complete failure, primarily arising from the fact that the C.P.A. refused to consider any tariff adjustment which would put them on an equalized basis with T.C.A. on the ground that in doing so they would lose 20 per cent of their loads.

Mr. FISHER: What about the other alternative? Can you make an appeal to the air transport board for a hearing on this matter?

Mr. MCGREGOR: I suppose so. It would have to be based on the ground that we were appealing to the air transport board to disallow the competing tariff.

Mr. SMITH (*Calgary South*): Have you done this?

Mr. MCGREGOR: No.

Mr. FISHER: There seems to be a bit of a canker within the situation. What can you do? What do you hope to do?

Mr. MCGREGOR: As a company, I think we have exhausted all the possibilities. The failure of the two teams resulted in a letter from Mr. McConachie to me saying, did I think there was any point in having further meetings in Vancouver—the previous one had been in Montreal—and if not, was there any merit in him and me meeting. I replied that I thought there was no point in the teams meeting again since they had got into a deadlock because C.P.A. was not prepared to entertain any reduction in revenue, and referred again to the restriction on its frequency. Therefore I thought there was no point in putting the two teams together again, but I thought there might be some merit in him and me meeting. He said he was going to be east on December 6 and I said I would meet him any time during the week of December 10. That is where it stands.

Mr. FISHER: Are there any other bargaining factors involved in this which you can bring into play?

Mr. MCGREGOR: I referred to the frequency. The hearing that resulted in this one frequency decision was based on an application for C.P.A. to use commercial D.C.-6 B's which were roughly 70-passenger aircraft. When the service was actually started by C.P.A. they flew it with Britannias which were roughly 100-passenger aircraft. Since then the service has gone to D.C.-8's which are now 141-passenger aircraft. While in effect the agreement as to frequency restricted their operation, in fact their capacity is something more than double that in respect of which the hearing was held.

Mr. PUGH: You are not suggesting that they should stick to the lesser aircraft.

Mr. MCGREGOR: No. I am just saying that on the basis of the understanding of the committee that examined their application, there is something like double the capacity being operated.

Mr. PUGH: At the time of the application what were you flying?

Mr. MCGREGOR: Super Constellations and North Stars.

Mr. PUGH: What is the difference in capacity between a Super Constellation and the D.C.-8 in respect of passenger capacity?

Mr. MCGREGOR: About 50 passengers.

Mr. PUGH: And in respect of the North Star?

Mr. MCGREGOR: They went out of service very soon after the hearing.

Mr. PUGH: What is the difference in respect of passenger capacity?

Mr. MCGREGOR: They had two different seatings. They were in the order of 60-passenger aircraft in the highest density.

Mr. LAING: Mr. Chairman, I would like to return to the annual report and refer to the assurance you gave Mr. Smith (Simcoe North) that the write-off and amortization increase of some \$6 million approximately which would be your loss was based upon the rate that you had computed the year before. Is that correct?

Mr. MCGREGOR: That is correct.

Mr. LAING: To an ignorant layman on these matters like myself and I think many other people, it seems that there must be a very high degree of obsolescence in this business.

Mr. MCGREGOR: Yes.

Mr. LAING: In the case of planes not in use, how would you write them off; would you write them off completely or bring them down to the point where you would prefer to sell at a certain rate the planes that you have for sale? Perhaps you would give us some idea of the planes that are now out of operation and are for sale and the amount that would be returned to the corporation if you sold them at the price at which you would desire to sell them.

Mr. MCGREGOR: The second hand market for piston engined aircraft is very, very weak. We sold all of our North Stars at prices which very closely approximated the book value. We have not sold all of the Super Constellations. We still have three left. The amortized investment represented by those three aircraft we hope will be realized by their sale, but there is no massive return to the company's coffers to be expected from the sale of second hand piston engined aircraft.

Mr. LAING: You do not expect any capital return?

Mr. MCGREGOR: No net return.

Mr. LAING: My second question relates to that brought up by Mr. Fisher in respect of a national policy for air. You have stated that you have only two paying routes. The others are social routes. If you were a cold blooded businessman, you would continue the paying routes and ignore the social routes, I take it. You are operating the social routes because you are instructed to do so.

Mr. MCGREGOR: No. I did not say that. I think I said almost the opposite so far as the start of the routes was concerned. We think that if we are going to be the Canadian carrier designated to the routes across the Atlantic, and have a favoured position on the transcontinental at least in so far as frequency is concerned, we have a responsibility with regard to the so-called social routes. For nine years we serviced them and operated at a small surplus.

Mr. LAING: I take it that we want the social objective served at a minimum of loss. So this enters the point of competition in industry where competition surely must be qualified from time to time. Would it be your view that the degree of competition of over-all today is at the optimum point?

Mr. MCGREGOR: I feel it is too much, as witness the \$6 million deficit. If Canadian aviation is going to be required to operate in several social routes, then it has to be kept financially sound by at least a very strict curtailment of competition both from foreign carriers and other domestic carriers.

Mr. LAING: Would you as an operator prefer to see the so-called social routes required by the public taken care of by way of separate subsidies such as the way the railways are taken care of with the bridge subsidy and so on?

Mr. MCGREGOR: It is perhaps a difficult question to give a general answer to. I think there are many who would like to see this done. This is a policy which has been followed in the United States for years. I think the total subsidy paid to regional carriers there is something in the order of \$80 million a year.

Mr. LAING: I take it you are prepared to carry the burden of the red ink if other people do.

Mr. MCGREGOR: Yes, and preferably if left alone in respect of the black ink routes.

Mr. CHEVRIER: There are one or two questions arising out of these social routes. I take it they are not all unprofitable, although some of them are marginal and some of them operate at a deficit.

Mr. MCGREGOR: I do not think there is any route that is consistently profitable other than the two mentioned.

Mr. CHEVRIER: What is the position of the route you operate on the north shore from Montreal, Quebec and Sept Iles?

Mr. MCGREGOR: This route is in a sense competitive. I would say in 1961 the route to which you refer lost in the order of \$1,400,000.

Mr. CHEVRIER: In the supplementary estimates tabled yesterday there is an amount of \$150,000 for subvention to air carriers in western Canada. I understand that T.C.A. is going to take that service on. Is that correct?

Mr. MCGREGOR: It is too early to say. At the moment I do not know. I think you are referring to the Prince Albert-Saskatoon-Regina route.

Mr. CHEVRIER: That is right.

Mr. MCGREGOR: I think that route, as it has been operated in the past, has extended on to Edmonton through North Battleford and perhaps one other place.

Mr. CHEVRIER: Is T.C.A. going to take this route over?

Mr. MCGREGOR: I would not be sure. Certainly we have not a licence to operate it at the present time.

Mr. CHEVRIER: I was going to come to that. How do you get into these social routes? Do you make application to the air transport board? Do boards of trade and chambers of commerce and the like invite you to apply for a route into a particular region or area? How is it that you get into a social route, which might be marginal or unprofitable?

Mr. MCGREGOR: I can tell you the history of these things. The most famous of these was the so-called Prairie milk route. We were overflying all these areas in our Winnipeg-Regina-Lethbridge-Calgary route and there were six or seven small towns—and there is no other word for them—which were directly under that airway, all of which had had airports built in connection with the Empire air training plan, and it was too easy to say: "the planes are going overhead; the airport is there, and here are we, so why can we not have service?" And, I think T.C.A. answered at the time: "why not?", regrettably, because these places cannot support air service on their own traffic.

Mr. CHEVRIER: In connection with the Montreal-Toronto route you were invited to do the same thing in connection with the cities over which you flew, and you—

Mr. MCGREGOR: Resisted.

Mr. CHEVRIER: —resisted. But another air line got the licence and it is now seeking to withdraw because it is unprofitable.

Mr. MCGREGOR: In fact, it has withdrawn.

Mr. CHEVRIER: Yes. What I am getting at is this recent example you gave. What is the position there as to profitability or otherwise?

Mr. MCGREGOR: Well, Mr. Chevrier, this matter only arrived on my desk last Thursday. I think the situation was that the carrier who was operating that route or part of it under subsidy had been told the subsidy was going to

stop and the reply, as I gathered it,—and this is hearsay—was: so will we stop. As I say, this arose only last week, as a result of which I am in no position to give you any factual information about it.

Mr. BALZER: I might say I will be making a statement in the house at 2.30 this afternoon on this subject which, I think, will satisfy Mr. Chevrier's curiosity.

Mr. CHEVRIER: Then I will desist. However, I would prefer if the minister would make the statement here. It would be interesting to hear it here.

The CHAIRMAN: If I might interrupt, is it the wish of the members of this committee to allow Mr. Gregoire to ask a question.

Mr. LAING: Mr. Chairman, may I ask Mr. McGregor a question in reference to this western matter. Could he operate that service at a profit without a subsidy.

Mr. MCGREGOR: You mean T.C.A.

Mr. LAING: Yes.

Mr. MCGREGOR: No.

Mr. LAING: It would be a social route?

Mr. MCGREGOR: Yes.

Mr. PASCOE: Mr. Chairman, I have a supplementary question on that. Mr. McGregor has indicated quite a loss in connection with this milk run. Is this a loss as a result of the small load factor or the cost of setting down the planes, or both? Does it cost very much to set a plane down within, say, 50 or 60 miles of where it takes off?

Mr. MCGREGOR: I am not sure I understand your question.

Mr. PASCOE: In connection with this milk run it is necessary to set down quite frequently?

Mr. MCGREGOR: Yes.

Mr. PASCOE: Then, is there quite a cost factor involved in setting down planes.

Mr. MCGREGOR: The whole operation is doomed to financial trouble. First of all, it requires T.C.A. to operate DC-3 aircraft, the only two piston engine aircraft which are left in our fleet, because the airports are not big enough or the runways are not long enough or strong enough to accommodate our smallest other aircraft, which is the Viscount, so we have to segregate two orphan aircraft, maintain them, and obtain crews to operate them, which is very unsatisfactory and a very expensive exercise. Then, after we have operated the aircraft over the route at DC-3's operating cost there is not enough revenue derived from the passenger and other traffic to pay the expenses.

Mr. PASCOE: What would happen if they increased the length of the runways and brought in larger planes?

Mr. MCGREGOR: The situation would not be greatly improved other than somewhat from our operating costs. However, the percentage of the seats occupied would be worse because the Viscount is bigger.

The CHAIRMAN: Is it agreeable with the members of the committee that Mr. Gregoire ask a question at this time?

Some HON. MEMBERS: Agreed.

Mr. GREGOIRE: Mr. Chairman, it was just a question of procedure I wished to bring up. I understand that I am not a member this morning. However, I understand that a substitution will be made for this afternoon. I am sorry but we were not aware of these details as it is the first year that some of us have been in the House of Commons.

To revert to the matter of the board of directors, which subject came up a few moments ago, I would like to approve of the statement made by Mr. Chevrier.

Mr. PUGH: Mr. Chairman, I am not objecting to the question in any way, shape or form, but I think an opportunity should be given for further questions in connection with these social lines while we are still on this subject.

Mr. SMITH (*Calgary South*): Yes. We all have a series of questions on this matter to ask.

Mr. GREGOIRE: But I raised my hand when we were on this subject of which I speak.

The CHAIRMAN: I had your name down, Mr. Gregoire and then Mr. McDonald (*Hamilton South*), Mr. Prittie, Mr. Smith, Mr. Pugh and, again, Mr. Fisher. I could only take them in the order I have them.

Mr. SMITH (*Calgary South*): Proceed to ask your question.

Mr. BADANAI: Mr. Chairman, I have a question.

Mr. GREGOIRE: Mr. Chairman, I do not mind waiting until after this other matter is completed, if I might revert at that time. However, we were on the point of which I speak one half an hour ago, and it was suggested that when we are on one subject we should complete it and then go to another one. I raised my hand but, apparently, the chairman did not see me.

The CHAIRMAN: Would you proceed, Mr. Gregoire.

Mr. GREGOIRE: Mr. Chairman, I first would like to approve of the statement made by Mr. Chevrier when he said that Mr. McGregor answers our questions very well and to our satisfaction, in contrast to the answers given by Mr. Gordon a few days ago which, on my part, denoted a sense of irresponsibility. Also, I would like to mention a letter which was written to me by Mr. McGregor. It was written in good French, which to me, indicates a great contrast between the C.N.R. president and the president of the T.C.A.

In connection with the board of directors, I note that there are five directors elected by the shareholders and, I suppose, these are all from the C.N.R.

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: Also, in connection with interest on loans and debentures, I note you paid \$10 million. Is that related to the debentures you have on page 17 in the amount of \$227 million, and is this due to the C.N.R. as well?

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: So you pay interest to the C.N.R.?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: That is, they have debts and they have to pay interest; you pay them the interest and then they borrow the money to lend it to you?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: Could I then ask a question of the minister? Would you not think there is a duplication of monetary or financial matters in this connection?

Mr. BALZER: Although I am no expert, I think this has worked satisfactorily in the past. It is a matter of general policy and, for the present time, this is the policy we are following. I do not think I am qualified to say whether or not it is a very good arrangement. This is a matter for the Minister of Finance to decide.

Mr. GREGOIRE: Mr. Chairman, I notice that there are four members of this board of directors named by the governor in council and five named by the Canadian National Railways.

Mr. MCGREGOR: That is right, yes.

Mr. GREGOIRE: My impression is that the administration of Trans-Canada Air Lines could be dominated by the C.N.R., in view of the fact that five directors are nominated by the C.N.R. and only four appointed by the governor in council. I wonder whether any thought has been given to the idea of establishing a separate board of directors for T.C.A., completely divorced from the Canadian National Railways?

Mr. MCGREGOR: Mr. Balcer, perhaps I could clear up this point. Trans-Canada Air Lines is officially described as a wholly owned affiliate of the Canadian National Railways, but the company's equity capital which, oddly enough is only \$5,000,000, is owned by the C.N.R. The C.N.R. has also been the sole provider of capital floated for the T.C.A. enterprise in the form of debt capital, bonds, debentures and notes. There is no duplication involved here. The C.N.R. borrows money either in the form of an issue of C.N.R. paper or from the government and lends it to T.C.A. at the same rate of interest it pays for that money. The C.N.R. is acting as bankers for T.C.A.

With respect to your point about the majority of the board members, it is quite true that there are five appointed by the shareholders and four by order in council, however, I have chaired every T.C.A. meeting except one since 1948 and I have never seen a vote at these meetings and never witnessed dictating or interference in T.C.A. affairs by what I would call railroad interests.

Mr. GREGOIRE: Mr. McGregor as the president of T.C.A. must appear before this sessional committee and, in the case of this year, ask the government to provide moneys in respect of a \$6 million deficit. It seems to me, in view of the fact that the majority of the directors of the board are appointed by the Canadian National Railways, that deficit should be looked after by the C.N.R. There seems to be an anomaly involved in this regard.

Mr. MCGREGOR: Mr. Chairman, I think one might answer that question by reference to the Canadian National Railways Financing and Guarantee Act. The Trans-Canada Air Lines was formed in 1937. There have been two changes made in respect of the number of directors and the proportions in intervening years. At one time there were four members elected by the stockholders and three appointed by order in council. This number has now changed to five and four, so that the majority situation has been maintained.

However, the reason T.C.A. does not present its deficit to the C.N.R., allowing the C.N.R. officials to present the same deficit to this committee of parliament, is lost in antiquity, so far as I am concerned. However, the rule was established that T.C.A. would report to parliament through the designated minister who, for the majority of the time, has been the Minister of Transport. There was on exception in that regard.

Mr. GREGOIRE: Mr. Chairman, I notice that the amount of \$10 millions appears in this financial review in respect of interest on loans and debentures. I should like to ask Mr. McGregor whether he foresees the day when Trans-Canada Air Lines will be able to buy back those debentures and therefore avoid paying this interest?

Mr. MCGREGOR: I do not believe that Trans-Canada Air Lines requirements for capital will show a reduction for many years to come because of the continuing need for new equipment. Reference has been made to the high rate of obsolescence of equipment, and it is difficult to see in an expanding business that the need for capital will be reduced.

Mr. GREGOIRE: Mr. Chairman, I realize that there is a continuing need for capital to be provided by way of borrowings and debentures, but I wonder whether Mr. McGregor foresees the day when Trans-Canada Air Lines will be in a position to buy back those debentures sold in past years?

Mr. MCGREGOR: Yes, these debentures mature and have to be paid off, but this will have to be done by making additional loans.

Mr. GREGOIRE: These debentures will be bought as a result of additional loans and not as a result of amortization or profits made by the company?

Mr. MCGREGOR: I find it difficult to anticipate such a thing occurring.

Mr. ADDISON: Mr. Chairman, I should like to ask Mr. McGregor a question or two in respect of the action anticipated to reduce the deficit. I notice one step in this direction—as regard to the increase in fares as of April 1. Does T.C.A. also anticipate stretching out its depreciation time in respect of jet aircraft from ten years to twelve years, following the practice of some American fleets?

Mr. MCGREGOR: We already have a 12 year depreciation life for the DC-8. I had thought that this life could have been stretched out, at least until perhaps three years ago when the then tentative life in respect of supersonic aircraft became very much more acute. I feel that the DC-8 will tend to be made obsolete in the early 1970's, which means that this life is directly related to that 12 year straight line depreciation life. We are depreciating the Vanguards over a ten year period and the Viscount over a nine year period. We have been operating Viscounts since 1955, so that this depreciation life works out just about right.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I should just like to get a little information from Mr. McGregor. Mr. McGregor, you said the \$5,300,000 figure was directly attributable to the entry of C.P.A. into the long distance hauling field in Canada?

Mr. MCGREGOR: No, I did not say exactly that. I said this was the result in 1961.

Mr. ADDISON: I understand that Canadian Pacific Air Lines operates a travel route between Vancouver, Toronto and Montreal?

Mr. MCGREGOR: Yes, as well as Winnipeg.

Mr. ADDISON: I also understand that T.C.A. operates on that same route. Could you tell me what percentage of your revenue this year was derived from that service?

Mr. MCGREGOR: Are you speaking of gross revenue?

Mr. ADDISON: Yes.

Mr. MCGREGOR: I am afraid that we would have to make some calculation in order to give you an answer in that regard. I will undertake to provide an answer after lunch.

Mr. ADDISON: Perhaps you could also give us that calculation in respect of 1960, as I am trying to compare the two years. Perhaps you could give us the number of trips made by T.C.A. and the number of trips made by C.P.A. for that same period.

Mr. MCGREGOR: I can tell you how we arrived at this figure, and that might be an easier way of answering your question. The figure was arrived at by taking what we observed to be their traffic, multiplying that by the fares that we knew applied, giving us the gross revenue and then taking 90 per cent of that gross revenue as being the revenue that we thought we would have received from that traffic.

Mr. ADDISON: I wonder, Mr. McGregor, whether you could give us this figure for 1960-61, so that we will have it on the record.

Mr. MCGREGOR: Are you referring to the figures in respect of revenue derived from these duplicated legs of travel?

Mr. ADDISON: Yes, for the 1960-61 period.

The CHAIRMAN: Gentlemen, I think it is about time we adjourned for lunch. I suggest that we meet again immediately following orders of the day. Personally I would prefer that we do not meet to-night. Is this agreeable with the members of this committee?

Mr. SMITH (*Calgary South*): Mr. Chairman, I would go along with your suggestion, but I would like to point out that it is obvious we are going to have a fairly lengthy hearing and we should consider the convenience of the officers of Trans-Canada Air Lines. If by sitting extra days rather than meeting at nights we are inconveniencing these gentlemen, I think we should give this some consideration.

Mr. CHEVRIER: Mr. Chairman, I have no objection to sitting to-night; however, there is a very important debate to take place in the House of Commons this afternoon in respect of legislation concerning the National Economic Board, and most of us would like to be in attendance. While I am prepared to attend this committee meeting this afternoon, I would prefer to be in the House of Commons for at least the first part of that debate. Perhaps it would be a good idea to defer our evening sittings until Thursday.

The CHAIRMAN: I would suggest that we adjourn now until immediately after orders of the day and then sit until 5.30 this evening.

Mr. PASCOE: Mr. Chairman, perhaps we could decide in respect of an evening sitting after we see how much progress we make this afternoon.

Mr. CHEVRIER: Is it intended that we sit this evening?

Mr. McDONALD (*Hamilton South*): Perhaps we could decide in that regard at 5.30.

At 12.30 o'clock the committee took recess.

AFTERNOON SESSION

TUESDAY, November 27, 1962.

3.20 p.m.

The CHAIRMAN: Gentlemen, we have a quorum but Mr. McGregor is not here. In fairness to the president I must say that I told him I did not expect the meeting would start until 3.30; that it would be 3.30 before we were through with Orders of the Day. I guess he was governed by that.

Mr. PUGH: How about singing a song?

The CHAIRMAN: I will be satisfied but that would not get us anywhere.

Mr. SMITH (*Calgary South*): Can we put questions to you, Mr. Chairman?

The CHAIRMAN: I will answer anything I can.

Mr. McDONALD (*Hamilton South*): Let us adjourn until 3.30.

The CHAIRMAN: It is now twenty past three. Here is Mr. McGregor.

Mr. McDonald was asking a question at the end of this morning's meeting.

Mr. MCGREGOR: As I understood your question, Mr. McDonald, it was that you wanted to know the percentage which our revenue on the duplicated transcontinental legs bore to our total revenue with respect to 1960 and 1961. Is that correct?

Mr. McDONALD (*Hamilton South*): Yes.

Mr. MCGREGOR: I can give it to you either with respect to our total North American revenue or our total system revenue which includes trans-Atlantic and southern operations.

Mr. McDONALD (*Hamilton South*): I mean the revenue at the back of your book in the statement of income, \$165 million. Is that your total income?

Mr. MCGREGOR: I am talking about the passenger revenue which excludes express, freight and mail. Would you like the total system revenue?

Mr. McDONALD (*Hamilton South*): Passenger revenue is all right.

Mr. MCGREGOR: The total system passenger revenue in 1960 was \$127,596,000. The revenue from the routes Vancouver-Winnipeg and Winnipeg-Toronto for that same period of 1960 was \$16,612,000, which represents 13 per cent of the total. The corresponding figures for 1961 are \$143,301,000, \$16,717,000, or 11.6 per cent.

Mr. McDONALD (*Hamilton South*): It is self-explanatory.

Mr. PRITTIE: Mr. Chairman, the question that came to my mind when we were discussing the unprofitable lines is the following. There are three unprofitable lines, they are very short and uncomplicated, so I could pose all three questions at once. First, what was the loss in the Vancouver-Victoria run in 1961?

Second, what was the loss on the Toronto-Ottawa-Montreal run at that time? It seemed to me that this might be a profitable one.

Third, would T.C.A. like more members of parliament to use the Trans-Canada Air Lines if certain people would make that possible for them?

Mr. MCGREGOR: The second question is rather difficult to answer because it involves two different routings, direct from Toronto to Montreal and from Toronto through Ottawa to Montreal.

I can give you the answer to the first question. It is \$921,000 for the Vancouver-Victoria run.

The third question seems to me to be a little bit loaded. Would you phrase it again?

The CHAIRMAN: You are not thinking of the social services, are you?

Mr. PRITTIE: It is not a fair question for you, Mr. McGregor. It is all right. How about the Toronto to Ottawa run; is it not a paying run?

Mr. MCGREGOR: No, but I do not know how we can split this up. We have all these short hauls on eastern services all wrapped together, Ottawa, Toronto, London and Windsor. I do not know that that is much of an indicator, but that group lost \$995,000 in 1961. We could try and break that down for you, but I do not think we have information on our routes broken down that closely.

Mr. PRITTIE: It seemed to me there was a lot of traffic on that route.

Mr. MCGREGOR: Yes, but it is all on short haul, and airline operations do not make a profit, under any airline management I know of, under 300 miles.

Mr. LAING: Would Mr. McGregor tell us if it is not so that his loss of \$921,000 for the route Victoria to Vancouver was as great as his total revenue?

Mr. MCGREGOR: You mean the gross revenue on the route? It was. The gross revenue was \$874,000. The total expenditures were \$1,795,000.

Mr. SMITH (*Calgary South*): Could I go back to the question asked by Mr. Fisher? You indicated your dislike for competition—which of course has been established for some years and which is from your standpoint understandable. Perhaps Canadians might think that T.C.A. is still a better airline than it was, but you also led up to a series of remarks concerning the discussion of what you described as an unheard of situation in which a competing airline charged a fare less than that of T.C.A. in this particular case. As I recall it, you were asked by Mr. Fisher whether you felt that you had any reports and you said I suppose—and I think I am paraphrasing reasonably correctly—that you could perhaps take it to the air transport board. You qualified

the basis on which it could be taken to the air transport board. I asked you if you had taken it to them and you said "no". Then you were asked by Mr. Fisher if there was anything that you could do, and you said that you felt you had done all you could do. Is that accurate?

Mr. MCGREGOR: It is a record of what took place, except that it was Mr. Fisher who asked whether I could go to the air transport board.

Mr. SMITH (*Calgary South*): I wish to clarify a point. When Mr. Fisher suggested you might take this course, you said that you felt you had done all you could. Why had you not taken it to the air transport board when you indicated that this was a possible avenue?

Mr. MCGREGOR: I also pointed out that the only corrective measure that I could take would be to go to the air transport board and say "will you please, through the medium of a hearing or not, disallow my competitors' fare?" That does not seem to be a particularly tactful course of action.

Mr. SMITH (*Calgary South*): You have not felt strongly about tactfulness—and I am not being critical in this sense at all. You feel very strongly about this and you feel your only recourse is through the air transport board. I am curious why you would not make representations to them?

Mr. MCGREGOR: Frankly, the year slid by since April with the continuing hope that something could be done about this. First of all there is the very long delayed answer, if any, to the minister's letter of a compromise proposal. That ate up nearly all the summer. Then there were these final desperate efforts to get down to brass tacks with both teams which has only just concluded, and finally there is my last letter to Mr. McConachie written within the last six or eight days suggesting that we personally get together in the east with the hope that something may be done.

Mr. SMITH (*Calgary South*): It is a curious situation that in the hearing you not only provided the content of your own letter but you even replied on behalf of Mr. McConachie as to what he said in the reply. May I ask you one or two questions further on this point? Your views on the attitude of T.C.A. versus C.P.A. are of course well known. I believe you suggested to Mr. McConachie certain improvements to the efficiency which would reduce cost. This might have taken place in this exchange. He suggested perhaps that you enter jointly pilot training, servicing and overhauling. I am now quoting from newspaper articles that I read. Are these not factors that could conceivably assist you in reducing your cost as well?

Mr. MCGREGOR: We already overhaul their engines. There are certain areas, but none of the ones he mentioned, that did not completely emasculate competition, which seemed to be his purpose.

Mr. SMITH (*Calgary South*): You indicated to him perhaps and to the committee that he has been uncooperative and perhaps unreasonable in his approach in coming to some agreement.

Mr. MCGREGOR: You are putting words in my mouth.

Mr. FISHER: I would put words in your mouth.

Mr. MCGREGOR: I certainly did not indicate that his attitude was unreasonable. It was one that I would have taken in his position.

Mr. SMITH (*Calgary South*): Otherwise we come back to this question of a competing airline. Once the government decided to introduce competition you would have taken exactly the same course that Mr. McConachie would take in this instance.

Mr. MCGREGOR: I would adopt the same attitude with respect to equalizing fares. That is as far as I would go.

Mr. SMITH (*Calgary South*): But he is in the position where has has but one route, and he has been competitive in a competitive situation, and you would do the same thing?

Mr. MCGREGOR: If I could get away with it, yes. But if I may add a word; you let slide by quickly the fact that competition has improved T.C.A. service. This I strictly deny.

Mr. SMITH (*Calgary South*): I did let it slip by because I think only the Canadian people can be the judge of the matter, and not you.

Mr. MCGREGOR: No. It is a question of what is the cause of the improvement, not whether the service is better. The whole improved operating plan was all laid out two years before that hearing.

Mr. SMITH (*Calgary South*): You have an excellent air line, but I think competition has made you a better air line.

Mr. Gregoire mentioned it, and you indicated that you have a very small equity.

Mr. MCGREGOR: That is correct.

Mr. SMITH (*Calgary South*): You have a capital debt structure of something over \$227 million.

Mr. MCGREGOR: That is correct.

Mr. SMITH (*Calgary South*): Are these not the relative figures which should be judged? In looking at your hope of eventually reducing your interest payments, which I still insist are substantially high, I am attempting to be helpful, but you have a \$10 million loan, and a \$227 million debt structure. If your capital structure was altered, where your debt structure was more in proportion, perhaps under a 60-40 basis, you would be in a position where you could pay the interest off, and also provide a dividend.

Mr. MCGREGOR: That is quite possible.

Mr. SMITH (*Calgary South*): So a serious factor is the capital structure of the air line which is producing a debt for interest at the rate of \$10 million a year, which is a very important sum in relation to the whole budget.

Mr. MCGREGOR: I agree.

Mr. SMITH (*Calgary South*): Thank you. The only other question I have is one we have dealt with at some length, on prairie routes as a whole. You indicated to the committee that one of effects from the historical standpoint which brought about many of these smaller towns being serviced by T.C.A., was the fact that the British commonwealth training programme had an airport there and local pressure has brought about many of these small ports. Was it not a factor that at one time you adjusted T.C.A. main line routes so that consequently there was no service to many of these towns?

Mr. MCGREGOR: No, I do not think so.

Mr. SMITH (*Calgary South*): I am thinking of when the transcontinental route went from Lethbridge to Vancouver rather than to Calgary.

Mr. MCGREGOR: Yes, that is correct. And there was another case in the east where the line to Kapuskasing, the main line route, changed over to the Lakehead, and they were left in the air. But a regional carrier took over the Kapuskasing route and then dropped it.

Mr. SMITH (*Calgary South*): I have a number of questions on routes, but since we have a section dealing with routes, I shall reserve them until that time.

Mr. PUGH: There is one point I would like to straighten out. You made a check on feeder lines and social lines. May I ask if the social line is a feeder line which does not pay?

Mr. MCGREGOR: I have never used the term "feeder line" today.

Mr. PUGH: That is right, you have not.

Mr. MCGREGOR: I really do not know what a feeder line is. The general conception is that a feeder line is one that is working laterally to a main line route; it brings traffic into a main line point where it moves, generally speaking, east and west, from that junction point. But a social route, as I understand the term—and I did not invent it—is just one serving points where the traffic generated is not sufficient to pay for the service.

Mr. PUGH: You have many of those lines which are operating today?

Mr. MCGREGOR: Yes.

Mr. PUGH: You have quite a number. Do you have many lines which are not feeder lines between two points which are not on the transcontinental, for instance, and terminate there?

Mr. MCGREGOR: I would say no.

Mr. PUGH: In regard to C.P.A. and their route, for instance, originating in Vancouver and terminating in Calgary, have you any figures of the passengers that you take on there for the complete transcontinental run?

Mr. MCGREGOR: I expect that we have them, yes. These would be classed as inter-line traffic.

The CHAIRMAN: Now, Mr. Fisher.

Mr. FISHER: I would like to touch on the points raised by Mr. Smith. In reference to this situation, what is to prevent you in the logic of the competitive situation—and given the fact that, I am sure, C.P.A. and their parent company are worried about the deficits that they have—from knocking them right out of this business by cutting fares?

Mr. MCGREGOR: Just the cost to the public purse.

Mr. FISHER: But you have been given a competitive situation by the government. Why steer away from the logic of it?

Mr. MCGREGOR: I do not think we are steering away from the logic; if we embarked upon the expenditure of unpredicted sums so that instead of losing \$6 million we might have lost \$10 million.

Mr. FISHER: If you had lost \$10 million by cutting fares and getting a greater volume, you might then have brought C.P.A. to adopt a different attitude towards the whole situation.

Mr. MCGREGOR: It is possible, but it strikes me as being a pretty poor bet, because the C.P.R. is a large organization and is quite prepared to join in a war of this kind. It is not my intention to make the government lose a lot of money to wage war of that kind.

Mr. FISHER: My question did not represent a point of view. I was merely trying to operate within the logic of what seems to be government policy. We have really touched on the number two reason which you gave for your loss, and that is, this whole question of Air France and "Lufthansa" which overrode you to Chicago. Is not this particular problem you raise here much more complex?

Mr. MCGREGOR: Oh yes, there are all sorts of examples.

Mr. FISHER: One of the things this committee is in a position to do is to make recommendations to the government. Is that not true, Mr. Chairman?

The CHAIRMAN: Yes, I think so.

Mr. FISHER: We can make recommendations in this area with suggestions to the government on what its policy should be.

The CHAIRMAN: Rather to parliament, than to the government.

Mr. FISHER: Yes, but we would hope that the government is listening in there.

The CHAIRMAN: I thought you would say that you hoped the government is sustained.

Mr. FISHER: Could you not expand on the general nature of the problem we are up against with the foreign carriers carrying on into the United States, particularly in line with all this hassle we hear about with Eastern Airlines, the Miami runs, and runs like that?

Mr. MCGREGOR: Well, I could do it at the expense of stepping out of my proper role. I think, generally speaking, that Canada has not done well in its bilateral negotiations, and that is probably one point of agreement between McConachie and myself. I think it is not the fault of the governments or agencies, because of the very nature of things. This is a difficulty that other countries besides Canada have bumped into. And an agreement between governments is a treaty and as such the Department of External Affairs or its equivalent in other countries gets into the act.

Now, it seems to me almost axiomatic that a Department of External Affairs interested primarily in the maintenance of good relations with other governments is not going to attach a proper monetary importance to the value of air route exchanges.

I would like to see bilateral air agreements negotiated, if this is physically possible, within the realms of government action by the Department of Transport, rather than just in collaboration with the Department of Transport, because we were once threatened with the granting of a bilateral air agreement to Iceland. It was a disastrous thing. The Icelandic air line does not recognize any regulatory restrictions. They put together a flight from Iceland to North America and a flight from Iceland to England and/or Scotland or Europe. These things went hand in hand and they operated with one aircraft in a transatlantic operation flying in competition with those air lines under I.A.T.A. The United States fell for this and are in the middle of a tremendous hassle because of it. I would still like to see bilateral air agreements negotiated between branches of government which know exactly what is at stake and what is meant by the third, fourth and fifth freedoms, and so on.

Mr. FISHER: I would like to get some indication of timing here. There has been a tradition extending back quite a number of years.

Mr. MCGREGOR: Yes.

Mr. FISHER: Have you explained these views to the present government or the present Minister of Transport and the ministry?

Mr. MCGREGOR: Yes, and perhaps in somewhat restrained terms because I did not think he was in a position to do much about it.

Mr. FISHER: We would be, of course, in this committee, in a position to make a recommendation to parliament in this regard, and I would assume from what you have said that you feel the matter is relevant enough and urgent enough to your revenues and that of other air lines in Canada to deserve immediate consideration.

Mr. SMITH (*Calgary South*): I have a supplementary question. I am sure we generally agree that on all transborder routes Canada has not done as well as most of us would like to see. You mentioned one, Montreal to Chicago. Surely there is a second one in which perhaps you are not so directly interested, and that is Vancouver-San Francisco. There is an anomaly there also in that there is no American or Canadian carrier.

Mr. MCGREGOR: Yes; Australia only.

Mr. SMITH (*Calgary South*): Again for information, I think you said you would like to see an agency of government, presumably the Air Transport Board, negotiate these things on behalf of the country concerned.

Mr. MCGREGOR: I said the department of government directly interested in the matter of transportation and here I meant the Department of Transport.

Mr. SMITH (*Calgary South*): Is not Mr. John Baldwin, the Deputy Minister of Transport, almost monthly involved in preliminary discussions on the bilateral agreement with the United States?

Mr. BALCER: Of course he is involved. At the present time this is a fact that these treaties are between our Department of External Affairs and the department of external affairs of other nations. In the United States I think it is the department of commerce.

Mr. SMITH (*Calgary South*): I sympathize considerably with the argument of Mr. McGregor, but I have been under the impression having read these agreements from time to time that while the Department of External Affairs perhaps is the immediate agency it would be very wrong to leave this committee with the impression that it was in total their responsibility to negotiate these agreements. Surely your department is concerned?

Mr. MCGREGOR: If I left that impression I was very wrong. I think I said collaboration.

Mr. SMITH (*Calgary South*): You would like to see this done solely by the Department of Transport?

Mr. MCGREGOR: If this is possible, with respect to an international treaty, yes.

Mr. CARTER: I think Mr. Fisher was suggesting we make a recommendation. If I understood Mr. McGregor correctly, in both countries, at both ends of the agreement, the Department of External Affairs conducts the negotiations, so there would not be much point in the Department of Transport negotiating with foreign affairs in another country. If we could negotiate with our opposite number in the Department of Transport in a foreign country, we could probably do a good job, but if you have the Department of Transport in one country negotiating with the foreign affairs department in another country, it does not seem to me to be the best way of accomplishing anything.

Mr. FISHER: I asked you this morning, Mr. McGregor, in relation to C.P.A., whether it was possible for some kind of a bargain or an arrangement to be arrived at. Is it not possible, within this whole framework of international matters, that there might be some adjustments made on your part and on the part of C.P.A. that would lead to more reasonable assurance that you would climb out of the deficit position?

Mr. MCGREGOR: I certainly would not say offhand that it is impossible. I think things can be done in this area.

Mr. FISHER: Is there anything specific you have in mind between your company and Canadian Pacific Airlines in this regard?

Mr. MCGREGOR: I do not want to seem to be labouring the point, but I think the first thing which has to be done—and we agreed, Mr. McConachie and I, that this was probably correct—is that we have to resolve this fare differential. We have a transocean operation at both ends of the transcontinental route. Any traffic that is involved in the gateway, say Montreal, Gander, or some other point at the Atlantic, and Vancouver at the Pacific, involves shipment by transcontinental. Therefore, I do not see how it would be possible to get to a reasonable arrangement for interchange of traffic unless there was a longer leg such as Tokyo-Winnipeg, Tokyo-Toronto, London-Vancouver, and so on, based on the same tariff across the continent, which is very nearly as long as the ocean flight, certainly the eastern ocean.

Mr. FISHER: As I understand it, we have a situation where a number of international carriers balked at remunerating the Canadian government for

services that are rendered by the Department of Transport. Is it possible that you are paying perhaps too high a price for the services that you get from the Department of Transport? I am thinking in terms of airport charges and things like that. To put it in a nutshell, is there any way that a better financial policy could be evolved?

Mr. MCGREGOR: Yes, there could be improvement in that area. Canadian landing fees, for example, tend to be high in comparison to other countries, with the exception of England where they are even higher. The rental of space occupied at terminals tends to be high; but that is understandable in relation to the very heavy expenditure that has been made for buildings.

The fact is that basically, as far as I understand, departments of government such as customs, immigration, medical services and so on do not pay their share of this space, with the result that there devolves upon the operating air lines higher rentals per square foot for terminal space used. All this is a small proportion of the total expense of operation. Perhaps these expenses could be reduced by one-half, but the resultant impact would not be very great.

Mr. FISHER: Is it your opinion, from the national point of view, that the total cost, past, present and future, in providing basic air services within which you can operate in terms of safety, weather and airports, is so high there never will be any hope of getting enough revenue out of operations such as yours to cover it. Is that it?

Mr. MCGREGOR: I do not think so.

Mr. FISHER: You think that in time it is possible for the air services which are provided by the government in this country to be remunerative?

Mr. MCGREGOR: Yes.

Mr. FISHER: Through charges placed upon you?

Mr. MCGREGOR: Oh, I beg your pardon; I thought your question was directed as to whether or not there was any hope of the air line getting into a black position.

Mr. FISHER: I am thinking of the total air service.

Mr. MCGREGOR: Well, the answer is yes. As I was saying, I am not sufficiently familiar with the government's costs in some of these places. I believe you referred to radio service to overhead flights.

Mr. FISHER: Yes.

Mr. MCGREGOR: In a country which has to clear the amount of snow from runways that we do and the general climatic conditions in which this service must be maintained I would think that the possibility of such things as terminal buildings or airports paying their way would be very slight.

Mr. FISHER: In other words, whether it is a government air line or a private air line, there is an underwriting by the taxpayers of the whole operation?

Mr. MCGREGOR: Yes, in the same way as when we dig a channel in the St. Lawrence river.

The CHAIRMAN: Are you finished, Mr. Fisher?

Mr. FISHER: Yes. I just wanted to bring this free enterprise business into focus.

The CHAIRMAN: Have you a question Mr. Badanai?

Mr. BADANAI: Yes. I would like to ask Mr. McGregor if the service to the Lakehead is a profitable one for T.C.A. and if we can hope to get the services of the Vanguard between Toronto, the Lakehead and so on.

Mr. MCGREGOR: I did not understand your preliminary question.

Mr. BADANAI: The preliminary question is this: is the service to the Lakehead a profitable one for T.C.A.?

Mr. MCGREGOR: Yes, I would say marginally so.

Mr. BADANAI: My following question, naturally, would be why we cannot get Vanguard service?

Mr. MCGREGOR: Because there are not enough people to fill a Vanguard, or a reasonable percentage. You must know that the size of aircraft used on any route is a matter of close study. The percentage of seats occupied has to be at least in the mid-sixties to make economical sense. But, the bigger the aircraft the more people it has to get in order to maintain that 65 per cent fill. And, furthermore, you tend to depress the traffic if you oversize the airplane on any route because the flight frequency decreases.

Mr. BADANAI: In so far as the Lakehead is concerned, it seems to me there is difficulty in obtaining space on planes going east or west of the Lakehead. Prior to the advent of the Vanguard we had four planes a day.

Mr. MCGREGOR: They were Viscounts.

Mr. BADANAI: Yes, and they were going each way. Now we only have two, with the result that service is reduced 50 per cent and there is difficulty getting space.

Mr. MCGREGOR: Well, this is a matter of frequency because two Vanguards provide the same amount of space as four Viscounts.

Mr. BADANAI: Two Vanguards do?

Mr. MCGREGOR: Yes.

Mr. FOY: Mr. Chairman, I have a question.

Mr. BADANAI: I beg your pardon, but I have another question. Mr. McGregor, could you give us a short statement on air freight? Is it a profitable part of your line?

Mr. MCGREGOR: Yes. That point is covered in the report.

Mr. BADANAI: Are you making any special effort to increase this business.

Mr. MCGREGOR: Yes, special efforts have been made. We have a sales force on the street in major centres; we advertise it in the trade magazines and we provide capacity as it is required. We put on two flights every night primarily for this purpose.

The CHAIRMAN: Have you completed your questioning now, Mr. Badanai?

Mr. BADANAI: No.

Mr. SMITH (*Calgary South*): Mr. Chairman—

Mr. BADANAI: Just a moment. You have had all day and I have only one or two questions to ask.

I wondered if Mr. McGregor has anything to do with the air terminal building at the Uplands airport with regard to the exhibits displayed in that airport?

Mr. MCGREGOR: No; T.C.A. has nothing to do with any terminal buildings.

Mr. BADANAI: Then, I would like to direct this question to the minister. One portion of those displays deals with the St. Lawrence Seaway and, in my opinion, this particular display is of a highly unsatisfactory character.

At one point—and I noticed this myself last fall—a table of distances to places overseas is given and the spelling of the name of one or two of those places is erroneous; for instance, "Gibraltar" is put down as "Gibralter," and "Istanbul" is given as "Istambul." Then, you will find that neither Fort William nor Port Arthur is listed at all or shown there. What is even more reprehensible is the fact that all those distances are given as distances from Chicago to other points in Canada. There is absolutely no mention of distances from the Canadian Lakehead. In other words, the Canadian Lakehead does not exist as far as this particular map is concerned.

Mr. BALCER: Did you say that this concerned the airport at Uplands?

Mr. BADANAI: At the airport.

Mr. BALCER: But the airport where?

The CHAIRMAN: Do you mean in Montreal?

Mr. BADANAI: No, no; in Ottawa.

Mr. BALCER: Well, I certainly will investigate that.

Mr. BADANAI: Will you please check on that.

Mr. BALCER: Yes, and we will make sure that the Lakehead appears on the map.

The CHAIRMAN: I believe Mr. Foy is next.

Mr. FOY: Mr. Chairman, I come from the chemical valley of Canada, namely Sarnia, Ontario. These fellows from the head of the lakes probably have not heard of Sarnia, just as I have not heard of Fort William or Port Arthur. However, I presume you are quite familiar with a dozen or so large industries which are located in Sarnia, as well as being aware of the fact that Nordair Air Services have been suspended. I am here to speak on behalf of my area, and although I may go around in circles I will come back to my point. I do not know whether or not T.C.A. has been approached to give Sarnia service. First of all, I would like to mention that Sarnia's industry is very interested in having air service in Sarnia. They were willing to participate to the extent that they gave \$135,000 to the city of Sarnia in this connection, which was matched by the Department of Transport, and that was sufficient to produce their original airfield. In spite of the fact that Sarnia is unique in western Ontario with respect to its dependence on some such service as Nordair, and in spite of the fact we are surrounded by London on the one side and Windsor on the other which have T.C.A. service, we have no service at all at this time, which makes the Sarnia appeal all the more worthy of some special consideration and treatment.

To cite one case, the crown corporation Polymer does approximately three quarters of its foreign business from our area. This crown corporation has three subsidiaries in Europe, and high speed travel from Europe to Sarnia is essential to a very important proportion of that company's business. This fact indicates to me that some sort of service from Sarnia to Toronto is necessary and would enable the officers of that company to travel to the various points where they must do business.

It is my understanding that 38 per cent of Nordair air travel throughout the seaway route either originated or ended at Sarnia, and each month the number of passengers was increasing. I am wondering whether it would be possible for T.C.A. to provide some type of aircraft to give service to this area. We are not necessarily interested in having Vanguard service, as Mr. Badanai suggests, but would perhaps be satisfied with DC-3's or some other type of aircraft providing such a service. The officers of these industries make these trips in any event, but at this time they must travel by train or car in order to catch planes at points of origin for overseas travel.

Mr. MCGREGOR: To answer your questions, Mr. Foy, if I can recall the order of them, I might say that I am not personally aware of any direct approach to T.C.A. in respect of T.C.A. service to Sarnia. That does not mean, of course, that there has not been such an approach, I am now informed that an approach has been made in this regard. I do not know the situation in respect of airport facilities there. The unit operating cost does not relate very closely to the size of the aircraft, but we only have two DC-3's left in operation and we are planning to get rid of them.

Mr. FOY: Would a DC-3 be comparable to the Dart that Nordair had in operation at Sarnia?

Mr. MCGREGOR: No, the DC-3 is an elderly unpressurized piston engine aircraft, and I think the aircraft that Nordair were using were all turbo prop aircraft.

Mr. McDONALD (*Hamilton South*): That is right.

Mr. FOY: Is there any hope of T.C.A. landing in Sarnia? I understand there is an aircraft that lands in London at 6.30 each evening, stays at London overnight and leaves the next morning. I realize there would have to be a large expenditure in Sarnia in order to provide such a service but I feel that the Department of Transport with the cooperation of industries in Sarnia should be able to provide such a service for Sarnia.

Mr. MCGREGOR: Mr. Foy, I think the proper way to answer your question is to say that T.C.A. is anxious to serve any point which will tend to improve its over-all financial position. I do not think that Nordair fared very well in that respect. I do not know whether Nordair still holds the licence to serve Sarnia but if it does at the moment, T.C.A. would not be allowed to serve Sarnia even if it were economical. I must say that on the basis of the evidence which we have at the moment, such a service would not seem to be economical.

Mr. FOY: As I pointed out, 38 per cent of Nordair's business came from the Sarnia area. This would indicate to me that there might be enough passengers going and coming from Sarnia to make it worthwhile for T.C.A. to investigate the situation.

Mr. MCGREGOR: We certainly do not have any objection to investigating the situation.

Mr. FOY: I was wondering how many passengers T.C.A. would require to have entering and leaving a city such as Sarnia in order to make such a service worthwhile.

Mr. MCGREGOR: As I pointed out a moment ago, the best I can say is that we cannot operate in a profitable way if our over-all load factor with respect to a specific route falls much below 65 per cent. This again is related of course to the size of the aircraft, and this would mean something in the order of 30 passengers per flight using a Viscount.

Mr. BALCER: I might add, Mr. Foy, in fairness to Nordair, they worked very hard to provide a service in your area.

Mr. FOY: I realize that they did, Mr. Balcer.

Mr. BALCER: It is my understanding that Nordair lost quite heavily in that area. Nordair bought some new airplanes and put turbo props on this route, and it was only after the loss of a very substantial amount of money that they applied to the air transport board for permission to suspend the service.

Mr. FOY: I understand that situation, Mr. Balcer.

Mr. BALCER: They did make a great effort to continue that service.

Mr. FOY: I felt that in view of the percentage of their business which was derived from the Sarnia area, it would be profitable to run a service from Sarnia to Toronto.

Mr. BALCER: I think the figure of 38 per cent which you use in regard to Nordair passenger traffic is a misleading figure. This would depend on the amount of traffic which Nordair has. In any event, the traffic that Nordair did derive from that area was not sufficient to allow them to continue that service.

Mr. FOY: During the first six months of 1962, from January to June, there were 7,079 passengers carried in the Sarnia area. I do not know whether that is a sufficient number to warrant T.C.A. taking an interest in this area, but on what basis would T.C.A. be interested in operating a service to and from Sarnia?

Mr. FISHER: I should like to ask Mr. Foy a question. Is there a service to the American side just across from Sarnia?

Mr. FOY: No, there is no service there. The nearest point of service is Detroit which is about an hour and a half by car. I wonder what number of passengers there would have to be before such a service could be economical to T.C.A.? If there was a potential of 15,000 to 20,000 passengers from and to Sarnia per year would T.C.A. be interested in providing such a service?

Mr. MCGREGOR: What would be the length of the trip from Sarnia to London?

Mr. FOY: It is 66 miles to the airport at London. It is about 100 miles to Windsor.

The CHAIRMAN: I understand it is about 210 miles to Toronto?

Mr. FOY: It is about 180 miles to Malton airport at Toronto.

Mr. FISHER: If you take the total number of passengers and divide by the number of days involved, in respect of a service providing one flight a day, you would still have only 20 passengers per plane.

Mr. MCGREGOR: Mr. Foy, I would be dishonest if I did not say that I do not think the chances of it being economical are very good. However, we certainly are prepared to have another look at the situation.

Mr. FOY: Perhaps you could tell me what we must do in Sarnia in order that you will take another look at the situation?

Mr. MCGREGOR: I do not intend to be facetious, but if you would move the place about 300 miles further away from a big centre it would help.

Mr. FOY: Unfortunately, or fortunately the chemical valley of Canada is in this area, and it fostered the Imperial Oil Company, one of the oldest industries in Canada.

It is very important that the raw material in respect of this industry is located in this area, and I have reference to the raw material used by Allied Chemical Company.

The CHAIRMAN: It would certainly strengthen Port Arthur and Fort William if you moved Sarnia up there.

Mr. SMITH (*Calgary South*): Then what have you got?

Mr. MCGREGOR: The sixty mile distance is a killer, but we will be quite prepared to look at it.

Mr. FOY: You mean by the sixty mile distance that it is not too far for people to drive to an airport?

Mr. MCGREGOR: That is one of the things. The other thing is that it is too short a route to make any money on.

Mr. FOY: I was really thinking of the service from Sarnia to Toronto where the main connections are.

Mr. MCGREGOR: It would probably make more sense.

Mr. FOY: That is what I was really referring to.

Mr. McDONALD (*Hamilton South*): Toronto to Hamilton airport.

Mr. FOY: I realize this could bounce from every small town in the country, but I notice you are putting one on in Sault Ste. Marie.

Mr. MCGREGOR: We have had service there for years but it has been on the other side of the border.

Mr. FISHER: What about a milk run Montreal to Ottawa to Sudbury to Sault Ste. Marie, Sarnia and Toronto?

Mr. MCGREGOR: What about it?

Mr. FISHER: North Bay has a better service and so does Sudbury to Sault Ste. Marie, if they are interested in your service.

Mr. McDONALD (*Hamilton South*): Let us include Hamilton.

Mr. MCGREGOR: All milk runs are dynamite as far as money is concerned.

Mr. GREGOIRE: Mr. Caouette asked me to put a question to Mr. McGregor concerning the airplane route from Montreal to Rouyn. I would like to ask Mr. McGregor if this is the policy of T.C.A. on all their routes. Sometimes the plane leaves Montreal with about 20 people going to Rouyn and at the Montreal airport there are no more places left on the plane. However, most of the people get off the plane in Ottawa and then the plane continues half full or half empty to Rouyn. You therefore lose money on the trip between Ottawa and Rouyn and the people destined for Rouyn stay in Montreal. What is your policy regarding that?

Mr. MCGREGOR: Tell Mr. Caouette that this is what is called short-hauling yourself in the industry.

Mr. GREGOIRE: Short what?

Mr. MCGREGOR: Short-hauling yourself. You accept a ticket from a man who is only going a short distance and thereby you keep empty a seat over a long distance. It is avoided where ever possible. That is our policy.

Mr. GREGOIRE: You try to avoid that, but do you succeed?

Mr. MCGREGOR: Not always.

Mr. GREGOIRE: Would it not be better, especially when it is on a route from Montreal to Rouyn, to have one flight from Montreal to Ottawa and another flight from Montreal to Rouyn?

Mr. MCGREGOR: Of course. It is something we always consider. I do not know whether traffic would support a direct flight from Montreal to Rouyn.

Mr. BALCER: Mr. Caouette talked to me about it. One of the problems was that in Rouyn some people who are going to Toronto for instance are trying to buy a ticket from Rouyn to Toronto, and they are told that it is too bad but the plane is full. However, half of the people get off in Ottawa, and by the time the plane arrives in Rouyn there are some empty seats. That is what Mr. Caouette talked about.

Mr. MCGREGOR: We try to line up the flights so that the traffic getting off the flight at Ottawa will be replaced by traffic getting on the plane at Ottawa to Rouyn. This does not always work perfectly because people are not all that accommodating.

Mr. GREGOIRE: I have another question, Mr. McGregor. You mentioned this morning, if I understood you correctly, that on a route in the western part of Canada C.P.A. have tariffs that are lower than yours.

Mr. MCGREGOR: It is on the transcontinental route.

Mr. GREGOIRE: But the tariffs are lower than yours?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: Do they lose money on his route?

Mr. MCGREGOR: No.

Mr. GREGOIRE: Can you bring your tariffs down to the same level as theirs?

Mr. MCGREGOR: Not without losing revenue that we are now getting.

Mr. GREGOIRE: You would not lose money on this route anyway. Would you lose it on this route?

Mr. MCGREGOR: No, we would not lose money on the route. The route is basically a profitable route.

Mr. GREGOIRE: You would charge more because of the other routes which are not rentable? Is that right?

Mr. MCGREGOR: That is right, if I understand you correctly.

Mr. GREGOIRE: In Bagotville—T.C.A. goes there—do you have lots of difficulty with the military airport there?

Mr. MCGREGOR: When we have difficulties, they are very bad.

Mr. GREGOIRE: Do you have many accidents?

Mr. MCGREGOR: One, in seven or eight years.

Mr. GREGOIRE: Is it really dangerous for the civilians?

Mr. MCGREGOR: Not on the basis of one accident in seven years. We would not regard it as particularly dangerous.

Mr. GREGOIRE: My last question is a special one. Our group in the House of Commons have advocated the suggestion that members of parliament should see their electors as often as possible. Would it be a big loss for T.C.A. if the members of parliament had a pass on T.C.A.?

Mr. MCGREGOR: Yes.

Mr. PRITTIE: That is what I was referring to earlier.

Mr. FISHER: It is too big an advantage for Mr. Caouette, I would think.

Mr. GREGOIRE: It would be a big advantage for Mr. Caouette. Would it be a big loss for the company?

Mr. MCGREGOR: Any service that we give away is a loss.

Mr. PRITTIE: You do not give it away, you pay for it, do you not?

Mr. MCGREGOR: No.

Mr. BALCER: T.C.A. is forced to pay for it.

Mr. GREGOIRE: Are there not enough seats unoccupied to justify that on your planes?

Mr. MCGREGOR: Probably if the traffic adjusted itself, but you know members of parliament; they all want to go somewhere on Friday night and come back on whatever day it is.

Mr. SMITH (*Calgary South*): Could you not work it on the basis that we have now with the passes which are kindly extended to us, and then have, as you do I believe with the T.C.A. personnel, passes given to us if there is space available to carry members?

Mr. MCGREGOR: I would not be prepared to be confronted with the situation where we were telling members of parliament that they could not fly.

Mr. SMITH (*Calgary South*): With some in particular.

Mr. MCGREGOR: They might start the trip and then may have to get off the plane.

Mr. SMITH (*Calgary South*): The bumping would be very serious.

Mr. GREGOIRE: Mr. Chairman, I think the question was very good. If there is space on the flight, would it be possible then to have passes for members of parliament?

Mr. MCGREGOR: This is what is known as a space available pass. It might be all right, but I would not like to be in the Ottawa airport behind the counter on a Friday evening on which the house had recessed and watch members being told that they were not going to get on the flight.

Mr. GREGOIRE: You have a bad impression of members.

Mr. MCGREGOR: Certainly not.

Mr. FISHER: Can I ask the Minister of Transport a question? He perhaps knows that one of the reasons why Mr. Hees has been looked at so fondly by so

many members of all parties is that he made the initial breakthrough in this area. Have you considered extending this breakthrough in any way?

Mr. BALCER: I can assure you that I have had quite a number of representations on this point, and we have raised the matter quite a number of times in cabinet. It has always been felt that it would be unfair to T.C.A. to ask them to increase the number of passes that they are already offering members.

Mr. ROULEAU: I think Mr. Gregoire as a candidate has often said that \$10,000 was too much for members of parliament. If that is the case, he can pay the fare.

Mr. GREGOIRE: Who said that?

Mr. ROULEAU: You and your leader.

Mr. GREGOIRE: I object to that statement. It is a falsehood.

The CHAIRMAN: We had better not get into that. This is not an election campaign.

Mr. GREGOIRE: Can we make this proposition in front of the committee, that members of parliament have a space available pass? Can we make a motion in that direction?

The CHAIRMAN: That would be up to the committee later in making their report.

Mr. SMITH (*Calgary South*): Can I ask the Minister a question?

Mr. PRITTIE: I am waiting for my turn.

The CHAIRMAN: I am following the names I have down here. If Mr. Gregoire is through, Mr. McDonald will be next, and then Mr. Laing.

Mr. PRITTIE: My question is related to the matter we are discussing. I thought there was a vote of the house to compensate T.C.A. for carrying members. I did not realize there was not. But since the minister is present today, perhaps he might enlighten us on it.

Mr. BALCER: I was wondering what would have been the situation with T.C.A. the other night when the government was sustained by 8 members?

Mr. MCGREGOR: It would have been accused of collusion.

Mr. FISHER: Does C.P.A. give passes?

The CHAIRMAN: That is something which would have to be looked at by the government as an allowance or expense. I have always thought that in the case of a member coming here from a great distance to Ottawa, something might be allowed to him for expenses, because a great many members travel by airplane rather than by train. I have not been on a train since this session started, and I go home every week. So I think some consideration should be given, because there is a lot of talk about members indemnities and expenses and so on; I think it would be better to have it provided in this way rather than to have them give it out holus-bolus.

Mr. SMITH (*Calgary South*): I sympathize with the position of the airlines. Obviously they won't turn down a member of parliament on a come see basis; they would prefer not to. I think the suggestion of the Chairman that it be based on geography and distance is very good, because it would help members of parliament who live at some distance from Ottawa.

Mr. BALCER: The McPherson commission came out with this philosophy in its report: as far as railway passes are concerned for members of parliament and the amount to be paid for those passes, it should be paid for by the government and discussed in the house and go through as a vote in the estimates.

The CHAIRMAN: I think there should be equalization of distance in this big country of Canada.

Mr. GREGOIRE: My question is on the financial revenue aspects. You have an increase in your deficit of \$3,800,000. I can see that one of the largest parts of it goes for the amount of depreciation and amortization. I know that I am a rookie in this committee but I would like to know the utilization of it? I do not know what you do with your amortization. I know that in some companies it is just a pure figure.

Mr. MCGREGOR: Depreciation is charged as an operating expense, and the money becomes available for the operation of the company. There is no liquid depreciation reserve built up. Am I clear?

Mr. GREGOIRE: Yes, it is just a figure of the expenses. Instead of saying a deficit of \$25 million, you show a deficit of \$6 million. If I add \$19 million for amortization, there is a difference in the deficit of \$6 million.

Mr. MCGREGOR: I am afraid I do not follow that.

Mr. GREGOIRE: Is it just a figure you have here?

The CHAIRMAN: It is an annual one.

Mr. MCGREGOR: It is not just a figure. If you will please turn to page 18 in the report under "operation expenses", you will see depreciation and amortization in 1960 amounted to \$13.6 million, while in 1961 it was \$19.9 million. Now, if that is not done, then at the time when an aircraft comes to the end of its useful life, it is on our books at exactly what we paid for it. What do we do with this? At present, the book value of the aircraft is reduced by the amount which is charged to depreciation each year.

Mr. GREGOIRE: Yes, but you have your amortization in your operating budget.

Mr. MCGREGOR: Yes, because it is an operating expense; it is like gasoline.

Mr. CARTER: I think what Mr. Gregoire means is this: last year did you put that money, the \$19 million, into a fund to buy new aircraft?

Mr. MCGREGOR: No, I have said that it was not put into a liquid fund.

Mr. McDONALD (*Hamilton South*): I shall reserve my question until we come to "service and traffic growth".

Mr. LAING: I would like to return, Mr. McGregor, to the support air service about which an announcement was made by the minister today. I read into this that as a result of the air transport board's report, that regardless of who is going to operate it, the air service from Prince Albert north to Battleford and Edmonton will be abandoned because it is obviously into a red ink area. It has already been indicated that you are going to take the other route over, that is, the remainder from Regina, Saskatoon, and Prince Albert. I think before the lunch hour today you told us that this had only come across your desk on Thursday.

Mr. MCGREGOR: That is right.

Mr. LAING: Would it be impertinent to ask who fired it when it landed on your desk?

Mr. MCGREGOR: No, I am trying to think; I believe it was Mr. Baldwin, the Deputy Minister of Transport.

Mr. LAING: They asked you to consider the possibility of picking up this service?

Mr. MCGREGOR: That is true.

Mr. LAING: In the light of the fact that P.W.A. had turned it down on the basis of no subsidy?

Mr. MCGREGOR: That is correct.

Mr. LAING: You suggested that you had only two DC-3's and you wanted to get rid of them.

Mr. MCGREGOR: Yes.

Mr. LAING: Am I to understand that the larger plane will be put on in that service?

Mr. MCGREGOR: No, we would operate it with time available from those two DC-3's if we operate it. They would seem to be quite enough.

Mr. FISHER: You say "if you operate it". I thought it was understood that you would operate it.

Mr. MCGREGOR: No, I think the minister's statement was that the license would be transferred to T.C.A.

Mr. LAING: You indicated you were able and willing, but you did not say that you were anxious. Is that right?

Mr. MCGREGOR: Able, certainly.

Mr. LAING: Well now, where is this in the nature of things going to leave the private companies? Is there some chance that this service is going to break even? Is it thought that over a period of some time you will probably not lose any money on the Regina-Prince Albert trip?

Mr. MCGREGOR: I hardly know enough about that leg of the route. This would become lateral to the through milk run which is Winnipeg, Brandon, Yorkton, Swift Current, and Medicine Hat, including Regina in the middle there. The route you speak of would run north from Regina to Saskatoon and on to Prince Albert. Usually, on the operation as we would conceive it, a DC-3 would simply go north and back again over that route. That is not a very expensive way to serve it. I do not even know what the traffic loads are. When Mr. Baldwin called me, we arranged a meeting with the officers of P.W.A., who were in the east, and after some discussion we agreed to have their traffic figures on this route, so that reasonable planning could be made. We further agreed—I do not think there is any secret about it—that they would continue to operate through the month of December until the whole problem could be studied and it could be found how easily or how painfully this north-south run could be integrated with the present milk route.

Mr. LAING: Where would this land us in the integration of a national air policy? If this is going to be a principle, where is it going to lead?

Mr. MCGREGOR: I do not want to get into the element of government decision, but as I said this morning there are many places in Canada receiving air service, which would have to be subsidized, one way or another either directly or through some other medium, and I think these are two of them.

Mr. LAING: In answer to that let me say that I think you are getting down to the word social, and whether a man's money is to be spent before taxes or after, and whether we are to use tax money to perform a social service that a private company is doing now with a government subsidy. You may develop a pass-off, and you may be able to see a difference in it; but why subsidize one and not the other?

Mr. BALZER: But one point you might forget is that at the present time P.W.A. which is giving service with a \$25,000 subsidy still is losing money and is not interested in carrying on.

Mr. LAING: All right, then; so you are going to take that operation out with the subsidy of \$25,000 and are going to substitute the public treasury in effect. Is that right? Are you going to go on with a reduced emasculated service. I understand they are coming up and going down the same day, not the way that T.C.A. does it.

Mr. MCGREGOR: They are doing it on a not very consistent basis. Their flights are routed differently on different days of the week. Whether or not this is the best way to serve that area, I do not know. I am not well informed on this at this stage.

Mr. LAING: You are accepting this on instructions, not because you sought it.

Mr. MCGREGOR: We did not seek it.

Mr. LAING: I notice that out of Sea Island airport you are starting to use the word "Air Canada". Would Mr. McGregor comment on whether or not in international usage he thinks that it would be an advantage to extend that.

Mr. MCGREGOR: We have used the term interchangeably with "Trans-Canada" for years, particularly in Europe. I think it is an advantage to use both. I for one would be prepared to say that the gradual substitution of Air Canada for Trans-Canada would be preferable as being more descriptive and somewhat more in line with general international practice. There are many airlines now using the word "air" in front of the country name as an indicator for their national airline.

Mr. SMITH (*Simcoe North*): There are a number who are not.

Mr. MCGREGOR: But not so many as are.

Mr. SMITH (*Calgary South*): A year ago in this committee Mr. Seagrim gave some information about the projection of equipment. I think he said in respect of the Vanguard and DC-8 that the decision to purchase these was made some five years in advance of the approximate delivery date, and from what you have said about how quickly these aircraft become obsolete, this is understandable, especially in respect of the DC-8's at \$6½ million apiece not equipped. Therefore, we must assume a very large part of the capital expenditure for our future projections must involve decisions now, I would assume, for forecasts in the future, because you have now, as an example, had the very excellent aircraft, the Viscount, in service for a period of time. Can you say a word about any intentions to purchase new aircraft? That is my first question. Secondly, how do you come to a decision as to the numbers of aircraft, because obviously this would be related in some way to your estimates or budget. Is it based on the present circumstances of air policy as we know it today?

Mr. MCGREGOR: First of all, yes. I believe the most important single function of airline management is its equipment planning for the very reason you mentioned, that there is so much money at stake. Also, having selected new aircraft, it is a requirement that they be bought in the right numbers. If you buy too few this would deteriorate the quality of service and if you bought too many, you would lose money. So, both the selection of the type and the number are of the greatest importance to the financial well-being of the airline. T.C.A.'s planning as designed at present is that its next purchase of a new aircraft type, subject to government approval of the appropriate capital budget, will be a short medium range full jet which will take over the work to be given up practically in its entirety by the Viscount and partially some of the work being done by the Vanguards in the 1965-6 area.

Mr. SMITH (*Calgary South*): May I ask a question on this point. This is still some distance off. Am I correct in assuming that one of the reasons you are not intending to advance the date for replacement of the Viscount is the experience you had in servicing. In other words, it was a good selection of an aircraft, and normally you would not have been as fortunate. The experience in respect of the Viscount has been even beyond your initial belief in respect of servicing and replacement of engines.

Mr. MCGREGOR: Yes. It has been better than we hoped for and the best ever in the industry, so far as I know. It has been very, economical. We always thought it would be or we would not have selected it, but it has been perhaps better than we had any right to hope.

Mr. SMITH (*Calgary South*): What about the others?

Mr. MCGREGOR: It is true of the DC-8 and I think will be true of the Vanguard; but the Vanguard has a relatively short life because it is turbine prop. The same thing applies to the Viscount, but they started in service six years earlier and they will have had an opportunity to become fully depreciated before being put on the shelf; whereas I am not sure this will be true of the Vanguard.

Mr. SMITH (*Calgary South*): Are you in a position to give any estimate in terms of dollars of the replacement value of the Viscount at this stage?

Mr. MCGREGOR: Yes. It would be in the order of \$4 million, for the new aircraft intended to replace the Viscount.

Mr. SMITH (*Calgary South*): \$4 million a piece per aircraft?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Have you anticipated the projection for the Vanguard and the DC-8 at this stage?

Mr. MCGREGOR: No. I mentioned this morning the threat of the ultra high speed aircraft, the supersonic. I just received word the other day that the joint British-French development is going to go ahead. Whether or not the United States counterpart of that is going ahead, I do not know. I do not think it has been decided. It seems now to be a foregone conclusion that some time in the 1970's there will be such a thing as a supersonic civil transport aircraft available. This tends—how shall I put it—to put some curtailment on the useful life of the subsonic jet. It does not mean they will become obsolete once the supersonic comes along, but I think the latter will replace the subsonics on certain routes, when the supersonic comes into service.

Mr. SMITH (*Calgary South*): I believe you decided on a certain number of DC-8's and then mentioned a certain group.

Mr. MCGREGOR: The second group was four DC-8F's. I believe that is what you are referring to.

Mr. SMITH (*Calgary South*): Have you any intention of making purchases of the type of aircraft already in the fleet? In other words, to supplement your services?

Mr. MCGREGOR: Not other than the one I mentioned.

Mr. SMITH (*Calgary South*): Mr. Chairman, I have one other question. In view of your engineering studies, Mr. McGregor, is there any likelihood you will be purchasing an aircraft which, unlike the present fleet, would be better engineered in connection with jet take-off in areas, for instance, that can be serviced now only by Viscounts or Vanguards? Are you looking for an aircraft that gives you much more flexibility than you have been getting from the Viscounts?

Mr. MCGREGOR: We would hope that the short-medium range jet would be able to operate into types of fields that are useable by the Viscounts and that the economics of the aircraft would allow it to be used on short routes with no greater financial penalty than applies to the Viscount.

Mr. SMITH (*Calgary South*): In co-operation with C.P.A., is there any possibility of purchasing any of these aircraft in Canada in the future?

Mr. MCGREGOR: I do not think there is any plan—at least that I know of—for the development of any such aircraft in Canada. There have been careful looks taken at the possibility of some Canadian manufacturing content in more than one of this type of aircraft.

Mr. SMITH (*Calgary South*): As an example, you decided you would not purchase the CL-44, was it?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Is it not conceivable though that in the interests of both the air lines, T.C.A. and C.P.A. and, of course, Canadian manufacturing, that some discussion toward this objective could be reached? In other words, is there not room for exploration along these lines.

Mr. MCGREGOR: Of Canadian manufacturing content, you mean?

Mr. SMITH (*Calgary South*): Yes.

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): But I mean a Canadian aircraft actually.

The CHAIRMAN: He means the full aircraft.

Mr. MCGREGOR: No, I do not think there is. First of all, the manufacturer would probably find that the foreseeable Canadian market for any type is not large enough to justify the fantastic cost of development and tooling. Then he would have to determine whether he could sell in competition in other markets, primarily the United States, against aircraft that already are under construction or in being in the United States and England. He would decide against it, I think, and it would be quite obvious why.

Mr. SMITH (*Calgary South*): I am not for the moment suggesting that any pressures be brought to bear on anyone to purchase anything because it happens to be Canadian; I am speaking of co-operation in the sense that we know Canadians can manufacture a good airplane. Is it not foreseeable that in the future, with the co-operation of both air lines and to the advantage of both air lines Canadian manufacturers could do this. I think the two air lines should give some thought to the planning of an aircraft which essentially could be used by them and which, by the very nature of its purpose could be projected abroad, thereby reducing tooling expense involved.

Mr. MCGREGOR: I would be inclined to doubt it. It is agreed between aircraft manufacturers that fewer than 200 is impossible. Now, considering our two route patterns, I find it very difficult to conceive of any joint use of a type by C.P.A. and T.C.A. which would run to anything like these numbers, even augmented by off-shore sales.

Mr. SMITH (*Calgary South*): But, conceivably there would be nothing to prevent any of these companies manufacturing under licence for T.C.A. and C.P.A.?

Mr. MCGREGOR: Yes. I might add that, although this perhaps is not of much interest, we did try very hard to achieve exactly that in the case of the Viscounts, and the manufacturer approached in this instance said: "oh no, that thing will never sell to any degree on this side of the ocean." I think there are something like 200 Viscounts in use in North America only. However, it was a perfectly good idea and that this was an aircraft that obviously had a wide enough appeal to break international boundaries, cross oceans and cross borders; however, it was not viewed in that light and it was not built here. Whether we are going to see another Viscount again, I do not know.

The CHAIRMAN: How many Viscounts are there in Canada?

Mr. MCGREGOR: We have 48 of them, and there are perhaps another three or four.

Mr. LAING: When do you anticipate the use of helicopters from cities to airports, or do you anticipate their use?

Mr. MCGREGOR: No, we cannot make economical sense out of a helicopter service. But, that does not mean it won't happen.

Mr. CARTER: Mr. Chairman, quite a bit of the information I required has been forthcoming. Both Mr. Fisher and Mr. Smith are looking to the future, and we have to make some decision by and by about regional air services, what we call the social routes, and where the private lines fit in. I think what

we are searching for is some thought or principle which could guide our thinking in those matters because we have before us the experience of the C.N.R. which is really a conglomeration of a lot of railway lines that sprouted up and became uneconomical with the result that someone had to gather them in, and the government of Canada became stuck with them. It seems to me that a similar pattern is developing now with respect to the air lines. It may be that I am wrong, and if I am perhaps Mr. McGregor could tell me so, and comment on it.

Mr. MCGREGOR: In numbers I do not think the threat is great. 1961 was a particularly bad year for both the major Canadian carriers. We chalked up a \$14 million deficit between us. I think that is probably the low point in the history of Canadian civil aviation; heaven knows, I hope so.

I do not want to use this committee as a sounding board for my pet solution, but I still say, on the basis of the arithmetic we have done, that if C.P.A.'s route pattern and that of T.C.A. were put together the resulting operating profit would sustain the so-called social routes as we know them and as that company would probably acquire them, and leave something in the black besides.

Mr. PRITTIE: Mr. Chairman, on what paragraph are we?

The CHAIRMAN: Under financial. Perhaps we have drifted a little away.

Mr. PRITTIE: We are not on equipment and facilities as yet?

The CHAIRMAN: No. Mr. Pascoe has a question.

Mr. SMITH (*Calgary South*): Mr. McGregor you do not acknowledge any other solution?

Mr. MCGREGOR: I do not know that there is one.

Mr. PASCOE: Mr. Chairman, I was pretty far down on your list. I wanted to ask some questions in regard to the statement in the house in connection with the northern service, Saskatoon, Prince Albert and so on, and I was particularly interested in the type of aircraft which T.C.A. might use if they took it over. However, Mr. McGregor has answered that question.

But, if I understood Mr. McGregor correctly, his remarks were to the effect that this northern service from Regina would be integrated with the present prairie milk run.

Mr. MCGREGOR: If possible, yes.

Mr. PASCOE: Would it be dependent on the continuation of that prairie milk run?

Mr. MCGREGOR: If I understand the question correctly, we could only integrate if we continued to operate the prairie milk run.

Mr. PASCOE: But if that run did not continue the other would not work out either?

Mr. MCGREGOR: It would be an isolated one, as far as we are concerned.

Mr. CARTER: Mr. Chairman, I was not quite finished when my friend interjected.

The CHAIRMAN: I thought you said he covered the information requested by you.

Mr. CARTER: I said it was partly covered.

Mr. McGregor, have you carried out any studies in connection with the projection of our population pattern and have you been able to make sufficient studies to be able to determine routes which although unprofitable now might become profitable in five or ten years time?

Mr. MCGREGOR: Yes. We try these projections over a maximum period of 11 years as we do not think we can estimate, with reasonable accuracy, any longer than that.

Mr. CARTER: Did you say ten years?

Mr. MCGREGOR: Eleven years.

Mr. PUGH: Mr. McGregor, what is the load factor in respect of transcontinental runs?

Mr. MCGREGOR: First of all let me say that I would like to be able to tell you. This involves a very complicated answer. The transcontinental runs, as we think of them, involve DC-8's operating on the long legged operation. Operating over the legs of the same run are both Viscounts and Vanguards. I can give you the composite load factor of the whole transcontinental service. On that basis the over-all load factor for 1961 was 67.7 per cent.

Mr. PUGH: That is above your average as published?

Mr. MCGREGOR: Yes, it is above our break even point which is why this is a profitable operation.

Mr. PUGH: Returning to a consideration of the jets, you say you have not got statistics in this regard, but that is your best revenue run. Is the passenger load factor in this respect higher?

Mr. MCGREGOR: Are you referring to the DC-8 service?

Mr. PUGH: Yes.

Mr. MCGREGOR: Yes.

Mr. PUGH: That is really the cream of the crop portion of the service?

Mr. MCGREGOR: Yes, and coupled with that is the fact that they represent the lowest operating cost per seat mile that we have.

Mr. PUGH: Is the figure in this regard much higher than that 67.1 figure?

Mr. MCGREGOR: Are you referring to the DC-8 load factor?

Mr. PUGH: Yes.

Mr. MCGREGOR: Yes; in 1961 it was slightly higher.

Mr. PUGH: In respect of the available seat miles, this would bear just about the same relationship as you have shown on your chart at page 13?

Mr. MCGREGOR: The available seat miles in relation to the occupied seat miles would be slightly lower I would think on the transcontinental run.

Mr. PUGH: It would be slightly lower?

Mr. MCGREGOR: Yes, hence the higher load factor.

Mr. PUGH: You mentioned in answer to a question asked by Mr. Smith that you had purchased some DC-8's recently. What was the date of the first purchase?

Mr. MCGREGOR: The last order for DC-8 type aircraft, the DC-8-F, was for four and was placed in December of 1961.

Mr. PUGH: Were they bought in respect of the transcontinental route mainly?

Mr. MCGREGOR: No, they were mainly bought in respect of the transatlantic route.

Mr. PUGH: You mentioned four and a half trips in respect of the transcontinental run. Was that in respect of 1961 or 1962?

Mr. MCGREGOR: That is in respect of 1962.

Mr. PUGH: What was the figure in respect of 1961?

Mr. MCGREGOR: I think it was four trips in respect of 1961.

Mr. PUGH: It was four in that year and I believe four in 1960 as well?

Mr. MCGREGOR: In 1960 we had quite a number of different aircraft types on the route.

Mr. PUGH: Are all your transcontinental runs through runs from Vancouver to Montreal, and are they all made with DC-8 aircraft?

Mr. MCGREGOR: All through runs are made with DC-8 aircraft, yes.

Mr. ROULEAU: Mr. Chairman, the questions I should like to direct to Mr. McGregor are supplementary to those asked by Mr. Smith.

Mr. MCGREGOR: Just one moment, please. I should like to correct an answer that I gave. There are through operations with Vanguards as well, and when I say "through operations" I mean that they begin at Toronto or Montreal and end at Vancouver or vice versa.

Mr. ROULEAU: I should like to ask a question in connection with commercial freight service. I note in the report that air freight traffic rose in 1961 by 17 per cent, resulting in an increase in revenue to the extent of about \$500,000, and I learned with pleasure this afternoon that the company is endeavouring to make every effort to promote air freight traffic. I would like to know, sir, how many strictly cargo flights there are in Canada to-day?

Mr. MCGREGOR: There are no strictly cargo flights.

Mr. ROULEAU: As far as cargo flights are concerned, are you contemplating having strictly cargo flights?

Mr. MCGREGOR: No.

Mr. ROULEAU: Has any serious consideration been given by your company to the purchasing of CL-44's produced by Canadair for cargo and other flights? If my information is correct, the CL-44 can be operated at a substantial saving and at the same time the purchase of these aircraft from Canadair would provide a number of jobs for Canadian workmen. I think your company could do business with Canadair at this time and thereby help to alleviate unemployment substantially in the Montreal region. Do you think anything can be done in this direction?

Mr. MCGREGOR: No. First of all I do not think some of your assumptions are correct. There is no cheaper way of providing cargo capacity than by providing it as a by-product on passenger flights. I do not think the most wonderful airplane that was ever dreamed of could do this more cheaply than we can by using the belly compartment of the DC-8 and the forward compartment of the DC-8-F, because the cost is borne by the passenger load and after that the capacity for cargo costs almost nothing. It is not true to say that the CL-44 operated as an all cargo aircraft can be operated more cheaply than can be done with the DC-8 and the DC-8-F, and as is now being done with the Vanguards.

So far as the possibility of T.C.A. purchasing CL-44's is concerned this was looked at very carefully, and the results of our investigation in that regard are not in favour of their purchase.

When you suggest that our purchasing of the CL-44's would provide an alleviation to the labour situation at Canadair, this is just not correct because these airplanes have already been built. All we would be doing would be alleviating the balance sheet of Canadair. We would not be providing any more work, by the purchase of aircraft already built.

Mr. ROULEAU: I asked the questions on the basis of a speech delivered by Mr. Prescott, president of the Flying Tiger Line Incorporated, who made the statement that the CL-44 was a very good airplane for air cargo hauling.

Mr. MCGREGOR: I believe he said that it was cheaper than any other cargo plane that he knew of, and that is probably a true statement.

Mr. ROULEAU: Yes, he had nothing but praise for that type of aircraft.

Mr. MCGREGOR: That is right.

Mr. ROULEAU: That is why I was asking those questions.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I should like to ask a supplementary question. I know that you are not directly involved in aircraft sales.

Mr. MCGREGOR: We are very directly involved in second hand aircraft sales.

Mr. SMITH (*Simcoe North*): I suppose you have difficulty in selling Canadian aircraft in the United States. I feel that this is perhaps the result of national pride on the part of the United States. People there feel that no matter how good a Canadian plane might be they prefer something made by one of their own companies, is that right?

Mr. MCGREGOR: I think that statement is generally correct. This situation has been violated once or twice by American carriers, for example, in the case of the Viscount. However, generally speaking I do not think United States carriers like to buy or import aircraft any more than anyone else does.

Mr. FISHER: I should just like to ask whether it would be possible for Mr. McGregor to provide us in future annual reports with some indication as to the percentage of the operating expense dollar which goes in respect of payrolls. The C.N.R. officials provide us with this type of information. The only information in this regard that appears in this annual report indicates that the average number of employees increased by five per cent while the total payroll increased by seven per cent. I cannot find any material within this report which would give a good picture in respect of any productivity made in a graphic form.

Mr. MCGREGOR: We used to have the coin divided into pieces like a pie, but because everyone was going this so religiously we gave it up.

Our payroll expense is 40.5 per cent of our operating expense for the year 1961, down from 42.4 per cent for the year 1960. The average for the United States industry is 41.8 which will give you something for the purposes of comparison.

Mr. FISHER: Your report indicates that the average number of employees increased only five per cent yet the figure you gave this morning would indicate that within the last year there had been a very sharp reduction in the number of employees. Did you not state this morning that the total number was 10,800?

Mr. MCGREGOR: That is right.

Mr. FISHER: In this report you indicate that the total number is 11,700?

Mr. MCGREGOR: Average number during the year, yes. We give the comparative yearly employment figures by taking the number either at the end of the year, or taking the mean figure for the year and, in some cases, the highest point for the year. The figure I gave you this morning covered Canadian employees only.

Mr. FISHER: I see.

Mr. MCGREGOR: The total is still about the same, however.

The CHAIRMAN: Are you finished, Mr. Fisher?

Mr. FISHER: Yes, Mr. Chairman.

The CHAIRMAN: Shall we proceed to tariff changes?

Mr. SMITH (*Calgary South*): I have one more question to ask in respect of the finance item. Mr. McGregor, this report that we have here is nearly a year old now and it shows a deficit of around \$6 million. I have a Canadian Press dispatch here and I am going to try to ask you, sir, if you could give us some comparative figures. The dispatch reads that Mr. Ryan Red, who is well known to you—he is vice-president of sales for C.P.A.—indicates that they are in the black this year and that in 1963 they hope to show a profit. You have indicated to us, sir, that there is some hope eventually—and we realize there are totally difference circumstances affecting your own financial structure—of making a profit at some point. I wonder if you could give the committee any indication as to how you are getting along with that objective this year. Are these figures going to be any more encouraging this year, in view of the fact that you have

now completed your transition; that you are finding your servicing charges smaller and that you have roughly the same competitive factors this year as you had a year ago. Is this situation looking any better?

Mr. MCGREGOR: Yes. I cannot conceive of anything that might happen to us between now and the end of the year that would not result in the 1962 operation being very substantially lower in deficit than 1961. For the remainder of your question, I would expect—if no other traffic deviation occurs than exists at the present time—that 1963 would be black.

Mr. SMITH (*Calgary South*): Would it be fair to say as a conclusion or deduction from that remark that the real factor you had to face was not really the question of competition but getting over this one projection dealing with new equipment and new acquisitions?

Mr. MCGREGOR: This is quite wrong. I already explained our unit costs are down.

Mr. SMITH (*Calgary South*): I appreciate that, but by the same token you told us two things. First of all, there is the question of economics between the different types of traffic. Then you also pointed out to us earlier that the new equipment provides you with a more efficient operation in terms of economics. You have indicated to us that the reason why you are faced with this \$6 million—and we assume you are recovering with the same competitive factors that existed—must be based I assume on the new aircraft, on the efficiency of the new aircraft, and other efficiencies.

Mr. MCGREGOR: That is right, coupled with additional traffic.

Mr. SMITH (*Calgary South*): So that there is quite obviously a very substantial growth factor in both the domestic and the international runs, and this is going to pull you out of this hole.

Mr. MCGREGOR: What will primarily pull us out of the hole is the fact that traffic as we are experiencing it in 1962 fits the capacity better.

Mr. SMITH (*Calgary South*): And that should gradually improve, so that you should not have any basic problem in so far as the one competition you have is concerned.

Mr. PRITTIE: Just a minute. In 1962 your position would have been better than in 1961 if not for the C.P.A. factor, would it not?

Mr. MCGREGOR: That is right.

Mr. PUGH: I have several questions.

Mr. SMITH (*Simcoe North*): Make it one.

Mr. PUGH: Do you have standby planes?

Mr. MCGREGOR: It depends. Not all of each type are committed to the scheduled operation. An aircraft will be undergoing between-flight checks or other servicing and probably can be called out in the event of aircraft that are committed to a line operation becoming unserviceable. I do not know where you draw the line between calling that a standby plane and simply an aircraft in addition to the number required to make the scheduled operation. However, there are aircraft in addition to those required to meet the schedule.

Mr. PUGH: I was wondering whether you had any figure comparable, for instance on an average, to those U.S. companies which you quoted before—the number of planes they have to provide, the service per passenger mile, freight and all the rest.

Mr. MCGREGOR: I would not think we have.

Mr. PUGH: Do we have more on an average, the same or less?

Mr. MCGREGOR: The usual industry measurement for how good use you are making of your fleet is called the daily utilization, this is the number of

hours that an aircraft is committed to fly in relation to the total number of hours in the day spread over the whole fleet including the ones that are undergoing overhauls. Our utilization figures compare favourably with other carriers.

Mr. PUGH: When you say "favourable" what do you mean?

Mr. MCGREGOR: I mean they are not worse.

Mr. LAING: This morning you told us that you reduced the first class fare and raised the economy fare to bring it closer to the other one. Has the time arrived now when we should have one class? Is there evidence to that effect?

Mr. MCGREGOR: I think it is long past, but whether or not this is going to be acceptable to the public is something that is doubtful.

Mr. LAING: There are still some first class people.

The CHAIRMAN: Shall we proceed to the tariff changes? We will take them as read.

TARIFF CHANGES

The general passenger fare revision, introduced by TCA on its North American services on January 2, had the effect of lowering the price of air travel on all but the short routes. In general, it gave Canadians the lowest air fare structure in the world and, at the same time, attempted to more closely relate ticket price and the cost of operations on specific route lengths. Inexpensive domestic excursion fares were also offered on a nation-wide basis and the amount of passenger baggage carried free of charge on domestic services was raised to international levels, both these steps being the first of their kind on the North American continent. Simultaneously there was a wide extension of economy class service, a policy supported by subsequent public demand. Later in the year new excursion fares were introduced between Canada and the islands of the Caribbean, reducing travel cost by as much as 35%.

I think we have slipped into other items such as "tariff changes" and "service and traffic growth".

Mr. SMITH (*Simcoe North*): I have one comment to make on "tariff changes".

The CHAIRMAN: Would you like me to read it?

Mr. ROULEAU: We have all read it.

Mr. SMITH (*Simcoe North*): I was going to ask a question but it turned into a comment. With the frequent but very limited use of airplanes chiefly between Toronto and Ottawa and with the speed of the Vanguard it seems to me that to have two classes of fares on such a short flight as that is just nonsense.

Mr. MCGREGOR: You are probably right but we cannot change the seating of the aircraft between its use on that run and its use across the country.

Mr. SMITH (*Simcoe North*): And yet when we go to the airport and buy an economy ticket, half the first class fares are empty these days when the expensive people travel by air, so that we have to pay the extra \$6.

Mr. MCGREGOR: That is correct.

The CHAIRMAN: We are now on "service and traffic growth".

Mr. MCGREGOR:

SERVICE AND TRAFFIC GROWTH

The delivery of additional modern aircraft made possible a further marked improvement in the quality of air transportation throughout the TCA system. In 1961, turbine powered equipment accounted for 89% of all mileage flown as compared with 61% in 1960. In December this figure had risen to 95%. To travellers and shippers this meant superior service and a substantial reduction in flight times.

Use of the 550 m.p.h. DC-8 jets was intensified on both transcontinental and overseas operations. All North Atlantic services were flown with these aircraft after January 4. During the busy summer months TCA jets offered 508 transcontinental seats daily in each direction and approximately 2,600 seats weekly across the ocean.

The airline introduced the third aircraft type of its planned all-turbine fleet on February 1 when Vickers Vikings began flying between Montreal and Vancouver with enroute stops. These large turbine propeller aircraft, carrying 96 passengers at 425 m.p.h., were later extended to the Atlantic Provinces and to the New York and Chicago routes.

An aggressive promotional campaign, employing advertising and other sales techniques, lent support to the Company's services and in large measure contributed to the healthy growth of traffic.

Air freight traffic rose by 17% and air express by 7%. While this was an encouraging trend, the Company's capacity for the movement of cargo far exceeded the volume of shipments. On the transcontinental route eastbound commodity traffic was less than half of that moving to the west. This directional imbalance reflects the concentration of industry in central Canada. Fortunately, the introduction of Vanguard aircraft with their flexibility of passenger and cargo loading did much to relieve the serious economic problems that are involved in an all-freight operation at the present time. The transcontinental service with all-freight North Stars was withdrawn, but the size and speed of the large turbine powered aircraft produced an overall increase in TCA's domestic air cargo capacity from 1960. An active sales program endeavoured, with considerable success, to stimulate greater use of air shipment by Canadian industry. TCA joined other international carriers in a sharp reduction of trans-Atlantic air cargo rates effective September 1, with a resultant growth of traffic.

Volume of mail carried by TCA increased 3 per cent. The bulk of this moved within Canada where the "all-up" transportation of first class mail by air continued to set an example in the Western hemisphere. The company's contract with the Post Office Department calls for lower remuneration per unit of mail carried as the volume of such transportation increases. This trend is illustrated historically on page 6.

TCA concentrated on strengthening its existing route structure in 1961 but did inaugurate two new services. A summer Viscount service connected the Atlantic provinces directly with New York and Boston and a new DC-8 operation was introduced between Cleveland and London, England via Toronto, providing a direct jet service between the mid-western United States and the British Isles. Much greater capacity was offered between Canada and continental Europe, a daily Paris flight being operated during the summer.

The company continued its commercial agreement with the British Overseas Airways Corporation on the North Atlantic. This not only made possible substantial economies for both carriers but also provided the travelling public with a wider choice of travel times and greater convenience than would have been otherwise possible.

At the close of the year TCA was operating over 39,519 miles of air routes and giving service to 59 communities in North America, the British Isles, continental Europe and the Caribbean. A map of that route structure appears in the centre of this report.

There has been considerable talk on that.

Mr. CARTER: I would like to ask Mr. McGregor what is the situation with respect to the maritime provinces. Has there been a steady growth there?

Mr. MCGREGOR: Yes. I think the maritimers are the most consistent and least complaining group of air travellers there are, and they probably have more to grumble about in the matter of disruption of their schedules through weather than most other areas.

Mr. SMITH (*Calgary South*): I would like to speak on another area in Canada—and perhaps you would not make the same comment concerning Calgary. You have had cause to change the traffic pattern in Calgary on numerous occasions and I sat in your board room many a time, but could you be kind enough to indicate why it is that it is necessary—and you will probably tell me it is pure economy—to take off the Thursday flights. My second point concerns the adjustment of times in the Calgary area which although it is often well advertised is not readily seen by the travelling public. Is there any hope that we can get a continuing program so that it is readily recognized as changes in the seats?

Mr. MCGREGOR: We have always hoped that we could eventually have at least some basic flights that would leave at the same time, year after year. We have never yet been able to achieve it without impairing the utilization figure that was brought up before. You have seen something of the complication of getting an aircraft back to where it has to be for such things as checks at the right time without having exceeded its time or seriously under-run its time and the matter of not having it loafing on the ground. There is nothing that earns less money than an aircraft sitting on the ground. It is a complicated thing. We have always tried to hit the best compromise we can between the demands of an economical operation, good service to the public and being as little of a nuisance as possible in the matter of changes.

Mr. SMITH (*Calgary South*): I realize that that was the reply. What I am attempting to get at is this: I am told by your people that, as an example, the Edmonton run is very profitable. I am told every time I phone to try to obtain a reservation when I am home that it is often extremely difficult for someone who is part of the travelling public. I find it difficult to understand why you reduce the service at a time when there seems to be a very high frequency rate of use; yet you produce statistics to show that this is not the case and I must accept them.

Mr. MCGREGOR: You do not have to accept anything that we cannot prove. But I would be surprised to be shown that the Edmonton-Calgary run was very profitable. All I can say is that the difficulty in making reservations usually indicates a high load factor, and that a high load factor tends to be profitable.

Mr. SMITH (*Calgary South*): Yet you reduce the availability of service in that area.

Mr. MCGREGOR: You mean in the autumn; yes we do that on nearly every run, such as the transcontinental and the transatlantic, because travel volume falls off very very sharply in the autumn.

Mr. SMITH (*Calgary South*): You had a flight which was transcontinental in the sense that it went in via Windsor to Ottawa and used Viscounts and Vanguards. Has this been dropped again for the same argument that it was not economical?

Mr. MCGREGOR: I think so.

Mr. SMITH (*Calgary South*): Might I ask you if you think it is possible for you to help the committee? The committee obviously, when it sits, will have to make recommendations and we will want to make them based on facts. So would it be possible for you to provide us before you leave with information on each segment? I do not mean Calgary to Winnipeg for instance, but on each of your various runs, with the load factor, and then, if it is not asking for too much, the profit factor. But if you prefer not to provide the latter, I will understand. I believe that information would be of value to the committee in coming to some conclusion.

Mr. MCGREGOR: It is not possible for us to provide the profitability by every individual route leg, because this is a very lengthy and detailed procedure. It involves applying a portion of our general overhead, to each designated group of routes. It would be of no advantage to the company to know that the leg, for example, between Regina and Calgary did not make a profit, or did make a profit of x, or that the run between Regina and Calgary made a profit of y. So we have basic route designations which are in the groupings that I spoke of.

Mr. SMITH (*Calgary South*): You reduced, as an example, the vanguard aircraft on trips out of Calgary because it was not economical and you were not making money out of it.

Mr. MCGREGOR: I think we said when we put it in, that it would come off in the Fall.

Mr. SMITH (*Calgary South*): I had imagined you were a supporter of Calgary in the western finals in hoping to prevent more people coming in.

Mr. MCGREGOR: I was a supporter of that team because I thought it was a better team, but with a very stupid play at the end.

The CHAIRMAN: Is there anything further?

Mr. FISHER: In connection with service, the Glassco commission has come out with a very strong statement in regard to the operation of what they call a sort of crown service. I think they were thinking of the Department of Transport serving the R.C.A.F. in regard to moving both civilian as well as defense employees, and indicating that there should be a greater use made of the commercial carriers which I assume would include T.C.A. May I ask if T.C.A. was consulted by the Glassco commission from this point of view?

Mr. MCGREGOR: No, not from that point of view.

Mr. FISHER: Has T.C.A. examined this particular problem as to whether it could provide, for example, on overseas flights and on internal flights a greater service to the government in all these many branches and thus help to keep down the expenditures on equipment which are involved in defence?

Mr. MCGREGOR: We always felt we only saw one side of the coin, and we strongly advocated greater use of T.C.A., particularly on the trans-atlantic operations by various departments of government. It always causes a twinge when I read that a ship is being used for the movement of troops to or from Europe. But I suppose this has been studied pretty carefully. We have maintained close liaison particularly with the department of defence in this area, and we have had considerable success in the past in chartering operations for specific movements, such as the turnover of a whole battalion and so on. But we have always said, somewhat quietly I must admit, that we would prefer

to see the R.C.A.F. entirely out of the business of moving people on what might be regarded as a commercial basis. We have always drawn attention to the fact that in the United States there is a pretty solid rule that movement in the United States is done entirely on commercial carriers.

Mr. FISHER: Have you brought this to the attention of the Minister of Transport lately?

Mr. MCGREGOR: Yes; I do not know whether or not the present minister, but certainly his predecessor.

Mr. FISHER: Have you any information to give us on this, Mr. Balcer?

Mr. BALCER: I know the Minister of National Defence has come out with the theory that transport planes in the Department of National Defence are sort of "fire department" equipment; they have to maintain cargo planes and passenger planes in order to move troops around. They have to maintain a nucleus in case of war. In a country as large as Canada it is quite important for the Department of National Defence to have its own cargo and passenger planes.

Mr. FISHER: Therefore there are economies to be gained in terms of providing these planes which are in existence with routine work.

Mr. BALCER: Yes.

Mr. MCGREGOR: We do not want to be piggy about this thing, because we cannot grumble at the amount of business we have had. The government of Canada gave us business in the passenger field in 1961 in the amount of \$4,184,000, \$102,000 of charter services and \$153,000 of freight. What we would prefer as an airline to see is people travelling on government accounts to points in Europe such as Vienna and so on not going by foreign carriers. There is a little of this. I think this is a matter of convenience in respect of time of departure and other things of this nature. However, we cannot say we are being seriously neglected by government travellers.

Mr. FISHER: Last year you indicated that there were very severe limitations upon your extension of the charter flight idea, because of international rules. Have there been any changes in that during the past year that have opened it up more?

Mr. MCGREGOR: Certainly in 1962 it was wide open. I would not think there was anything that put us in a better position vis-a-vis the charter market. I would be wrong if I did not say that we were not in the same position as many other carriers who were operating such things as Britannia aircraft on the transatlantic route. However the turbo prop is substantially slower than the jets. The Britannia is a good charter aircraft and it can be fairly densely seated. I think that that day is over and I believe that most charters in 1963 will be flown in jets. We are already in the fight for that market and there are quite a number of charters booked. However, a booked charter does not necessarily mean it will be eventually flown, because if the load tends to evaporate there is nothing to prevent the party chartering from cancelling the charter. We do expect, however, to do better in 1963 in respect of charter traffic than we have done in the past.

The CHAIRMAN: Are there any other questions on service and traffic growth?

Mr. PUGH: In connection with your charter business, do you have a better fare?

Mr. MCGREGOR: Well, there is no such thing as a fare in connection with charters. A charter is a leasing of the aircraft in total for a specific flight. It may not be between two points on a scheduled route of ours. The total cost in

moving the aircraft would result in a per passenger charge less than the regular fare.

Mr. PUGH: About what percentage would that be?

Mr. MCGREGOR: It would depend on the size of the aircraft.

Mr. PUGH: Say, for instance, a jet?

Mr. MCGREGOR: To take a rough guess, it would be somewhere in the order of 60 per cent of the regular ticket price.

Mr. PUGH: In connection with this charter business, you mentioned something about keeping your aircraft flying and booking ahead for the next year. Would you have to have any extra jets to service that?

Mr. MCGREGOR: Yes, if the number of charter operations were such that it would exceed the normal spare capacity.

Mr. PUGH: Is there such a thing as an interchange? Could you lease a jet yourself but provide the service?

Mr. MCGREGOR: We could. But, we would not operate it. We would lease it on what we call a wet lease, which means the owner supplies the fuel and crew and quotes us a price to operate the flight.

The CHAIRMAN: Have you a question Mr. Rouleau?

Mr. ROULEAU: I will not surprise you, Mr. McGregor, when I tell you there often has been criticism on the lack of bilingualism in the public service of Canada; however, this afternoon I would like to commend your company on your new bilingual timetable which you put out.

Mr. MCGREGOR: Thank you.

Mr. ROULEAU: I think that this is a move in the right direction and I think the population of Canada will be happy about that. However, I would like to see your officers welcome us aboard your aircraft in both languages.

Mr. SMITH (*Simcoe North*): They do on the Toronto flight.

Mr. ROULEAU: But I would like this to happen more than it is done now. But, otherwise they are very charming and give us very good service—and they are very good looking as well.

Mr. MCGREGOR: I gave you the figures this morning in connection with the percentage of bilingual personnel. However, occasionally we will get a crew together where there is not a French speaking hostess on board. But, in the province of Quebec this would be the exception.

The CHAIRMAN: I notice there are more complimentary remarks about the hostesses than anything else.

Are there any further questions?

Mr. LAING: Mr. McGregor, it seems to me that the maintenance and repair, which a few years ago, seemed to be fairly equally distributed across Canada is now moving to the east, and I can understand this in connection with the jet engines and so on; however, I believe two or three weeks ago you served notice on the employees in Winnipeg to be ready for a transfer by 1964, I think it was.

Mr. MCGREGOR: 1966.

Mr. LAING: Would you expect this to be the ultimate in connection with your concentration at Montreal?

Mr. MCGREGOR: Yes.

Mr. LAING: On account of the type of engines?

Mr. MCGREGOR: Yes, and for other reasons.

Mr. LAING: Is this to continue to a point where all maintenance and overhaul will be done there?

Mr. MCGREGOR: All overhaul, not all maintenance.

Mr. LAING: Maintenance still will be done in the west.

Mr. MCGREGOR: What we call line maintenance will be done at Halifax, Toronto, Winnipeg and Vancouver; but all overhaul will be done at the Dorval base which was specifically designed for this type of overhauling,—jet and turbine engines and their airframes.

Mr. LAING: So, what proportion of the total personnel will be at Montreal? Have you any idea?

Mr. MCGREGOR: No, but I would say that virtually all people directly connected with overhauling would be located in Montreal.

Mr. FISHER: Mr. Chairman, let us assume now that we are dealing with the equipment and facilities item.

Mr. PRITTIE: Mr. Chairman, I was going to wait until Mr. Laing referred to the question in respect of Winnipeg to ask my questions.

THE CHAIRMAN: Shall we now proceed to the item on equipment and facilities?

Mr. FISHER: Yes, Mr. Chairman.

THE CHAIRMAN: We will pass the item on service and traffic growth and proceed to the equipment and facilities item.

Mr. FISHER: Yes, that would be satisfactory, Mr. Chairman.

Mr. MCGREGOR:

EQUIPMENT AND FACILITIES

Throughout the year there were steady deliveries of new DC-8s and Vanguards and a corresponding retirement of Super Constellations and North Stars. By December, TCA was operating ten DC-8s on its transcontinental and trans-Atlantic services and to Florida and the Caribbean; 20 Vanguards on domestic and transborder operations and 49 Viscounts on its shorter routes. All of the airline's 21 North Stars were sold and only a few Super Constellations, flying between Canada and the Caribbean and two DC-3s on the Prairie route, remained to be retired before TCA became completely equipped with turbine aircraft.

The last North Star flight took place on June 30 concluding fourteen years of valued service by one of the most reliable commercial aircraft ever built.

In December an order was placed for four DC-8F aircraft to be delivered in the spring of 1963. Virtually indistinguishable from the company's present DC-8 fleet, these aircraft will have the added advantage of greater flexibility of passenger and cargo load. They will provide the additional passenger capacity required in 1963 and at the same time enable the airline to participate efficiently in the growing trans-Atlantic air cargo market.

In 1961 TCA completed 98 per cent of all scheduled aircraft mileage. This was particularly gratifying in a period of large-scale transition to turbine power and testified to the skills of the company's operational staff. The introduction of Vanguards was accompanied by a number of mechanical problems of the nature generally associated with new aircraft types. By year end this fine equipment had vastly improved its performance and was satisfactorily doing the job for which it had been purchased.

The first full year of operation of the company's Dorval base for the overhaul and maintenance of its turbine fleet proved highly satisfactory. In December a smaller maintenance base was officially opened by the Minister of Transport at Vancouver. Construction proceeded on a similar facility at Halifax.

In August the airline moved its operations from Sault Ste. Marie, Michigan to Sault Ste. Marie, Ontario with the opening of the new airport at the latter city.

A new London city ticket office on Regent street was officially opened in March by the High Commissioner for Canada in the United Kingdom.

A cordial and constructive relationship between the airline and the Department of Transport again contributed to the improvement of Canada's airport and airway facilities. Terminal building, runway and navigational aid construction promised further advances in the quality of air service.

Mr. SMITH (*Simcoe North*): Mr. Chairman, it is now twenty-five minutes after five. Perhaps this would be a convenient place to adjourn in view of the fact that we have completed one section and are ready to commence another. Perhaps we could adjourn until 9:30 tomorrow morning.

Mr. FISHER: Mr. Chairman, I would just like to indicate to Mr. McGregor that we are particularly interested in this Winnipeg situation having regard to pension and separation arrangements which may be made possible.

The CHAIRMAN: Has any other member the intention of asking questions regarding a specific item of which notice could be given to Mr. McGregor at this point for his assistance?

Mr. PRITTIE: Mr. Chairman, I should like to ask Mr. McGregor a question in respect of unions representing the employees at Winnipeg and representations that have been made to the company regarding the payment of the moneys contributed to the pension fund both by the employee and the company in lieu of separation pay.

The CHAIRMAN: That is a question along the same lines as Mr. Fisher intends to ask.

Is it satisfactory to everyone to meet at 9:30 tomorrow morning rather than 10:30? We will sit in this room but we will have to adjourn by at least 10:40 in the morning in order that the chairs in this room can be located in their proper position for the caucus to be held here. Is it satisfactory that we adjourn now until 9:30 tomorrow morning?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: We will now adjourn then until 9:30 tomorrow morning.

EVIDENCE

WEDNESDAY, November 28, 1962.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. McGregor, I believe, has a statement to make.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Mr. Chairman, at the time I was somewhat concerned about answering two questions in the negative. These questions I believe were asked by Mr. Smith (*Simcoe North*) and Mr. Laing. I was asked if there were any changes made between 1960 and 1961 in the depreciation accrual procedures. I answered no; primarily, because in the context in which the question was asked there was an inquiry as to whether or not we had, by a change in our depreciation procedure, increased our expenses in 1961. The fact is there was a change made but it did not have the effect of increasing depreciation cost. It had the opposite effect. We upped the depreciation life in 1961 over 1960 in respect of the DC-8 from ten years to 12 years. The effect of that was to reduce depreciation expense in 1961 by approximately \$1 million.

Prior to the close of our hearing yesterday afternoon, Mr. Fisher gave notice of a question with regard to the Winnipeg base personnel. The T.C.A. team worked on this last night because it was going to be a lengthy subject to deal with as it involved a good deal of history. I thought it might be acceptable if a written statement was prepared and incorporated into the record. If I may, I will read this.

At the conclusion of the Tuesday afternoon session, Mr. Fisher stated that the Winnipeg employees of T.C.A. had recently been put on notice of the company's intention to close the Winnipeg base, and that he proposed to ask questions on this subject relative to the future of Winnipeg personnel.

In passing I would like to say that notice of an involved question of this kind is very strongly to be recommended as a device which will save the time of the committee.

It occurs to me, carrying that thought forward, that if this was done all the time, I think the committee could cope with the T.C.A. in one session because it permits all the digging into company records to be done beforehand. I continue:

Under the circumstances, it has been thought well to prepare a statement which with the approval of the chairman can be included in the records of the hearing, and which it is hoped will shed as much light as possible on a quite involved situation.

In order that members of the committee may be fully informed as to the current situation, there is attached hereto as Exhibit "A" a copy of my letter dated November 14 addressed to all employees at the Winnipeg Overhaul Base. This letter really does nothing more than reiterate a statement which I made to assembled base employees and to representatives of the Winnipeg press five years ago, when the plans for the Dorval Base had been finalized.

I think it might be as well at this point if I read the letter. It is dated November 14, 1962, and is addressed to our employees at Winnipeg Overhaul Base. It refers to the company's twenty-fifth birthday party the previous week in Winnipeg:

The many Winnipeg based personnel who were at the twenty-fifth Birthday party in Winnipeg on Friday, November 2, will remember that I refrained at that time from making any comments on company planning, saying that I felt that a party was not the proper place to "talk shop". I also promised that the company would soon make such statements as lay within its power, in order to facilitate as far as possible the personal planning of the base personnel.

This letter is written in fulfilment of that undertaking.

The Dorval base, as was stated at the time, was designed for the specific functions of the major maintenance and overhaul of the airframes and engines and other components of what was conceived to be the ultimate T.C.A. fleet of turbo-jet aircraft. The recommendation that there should be only one such base, and that it should be located at Dorval, was made by a very competent firm of aviation consultants, and was accepted by the board of directors of that time. That decision obviously meant that as T.C.A. moved toward an all-jet fleet, the Winnipeg base as an overhaul centre would cease to exist.

At the time, I said that in order to cause as little personal inconvenience as possible to its Winnipeg personnel, T.C.A. would continue to carry out Viscount airframe and Dart engine overhaul at Winnipeg, as long as the company operated a substantial number of Viscount aircraft. That commitment has been fulfilled, and will continue to be honoured.

The question which must be uppermost in the minds of many of you is: "Yes, but for how much longer?"

The answer to that question, as I see it at this time, is as follows: T.C.A.'s need for Viscount aircraft is related to:

- (a) any basic change in the routes which it is licensed to operate; and
- (b) the acquisition of new (jet) aircraft which would do some or all of the work now being performed by Viscounts and Vikings.

I cannot accurately forecast changes in T.C.A.'s route pattern, but with the possible exception of the prairie milk run, I personally think it unlikely that there will be any great changes in T.C.A.'s short route operations.

With respect to (b) above, it can now be said that T.C.A. does not plan to seek authority to acquire any short/medium range jet aircraft for operation prior to the winter of 1965-66.

Therefore, I feel reasonably certain in forecasting that apart from conditions over which T.C.A. has no control, T.C.A. will be operating a Viscount fleet of not less than 40 aircraft, through 1965. Naturally, I can be much less definite as to what may occur thereafter, but it is quite possible that the Viscount fleet will start to dwindle in numbers, perhaps quite rapidly, early in 1966.

From the foregoing you will realize that T.C.A.'s most probable next purchase of a new aircraft type will be a short/medium range jet, and that the major maintenance and overhaul of such aircraft, its power plants and components, will be engineered into Dorval, not Winnipeg, in conformity with the original planning, and the dictates of economic common sense.

There is a human tendency to regard "1966" as a long way away; but in fact, it is not four years, and that time will pass quickly. In making plans for personnel, the specific circumstances applying in every individual case will obviously vary widely, and it would be foolish of me to try in this letter to give any rules of thumb, but I think you can trust the company to deal with its people fairly and intelligently; certainly that will be the company's objective.

I feel that the foregoing statement puts you in possession of all the information which at this time exists in this headquarters on this subject. I hope it will remove much of the doubt as to the future, and the difficulty which has surrounded your personal decisions in recent years. I hope, too, for such of you to whom this may apply, that you will not regard the prospect of changing your scene of activity to Montreal with reluctance. I think that those many who have already made the move are actually enjoying living in the Montreal area.

The letter was written because over the years the base employees had realized that they were slowly coming closer to the time when the Viscount fleet would become too small to economically justify continuation of a separate base at Winnipeg for the overhaul of their airframes, engines, components and accessories.

It was felt that employees were being confronted with many personal problems such as whether or not to bid on jobs within the company at other centres (notably Dorval), domestic arrangements respecting housing, schooling, etc. which carried long-term commitments on the part of the individual.

It seemed obvious to management that its personnel at Winnipeg could make more intelligent decisions respecting these many and varied problems, if, at the present time, they had the company's best forecast as to the date upon which it could be expected that a phasing out of the Viscount operation would begin. The letter was in no sense a "serving of notice" on staff; its sole purpose being to minimize domestic hardship if the possession by the individual employee of such information as the company now possesses respecting the future, would be of assistance.

Nothing that has been said in the letter in any way alters or modifies the original commitment given to the Winnipeg staff that the Viscount and Dart engine overhaul facilities would be maintained there, so long as the Viscount remained, as at present, a numerically large part of the T.C.A. fleet.

The letter did, however, include assurance that the present Viscount fleet numbering 40 aircraft, would be continued in operation until the spring of 1966, and that overhaul activities in this connection would be conducted at Winnipeg until that time.

In matters of this kind, there is a tendency to exaggerate the extent and effect of the discontinuance of a facility such as the Winnipeg Overhaul Base. The fact is that, as of October 1, 1962, there were employed at Winnipeg by all departments a total of 1813 permanent and 80 temporary employees.

The work of only 860 of these permanent employees is directly associated with the present overhaul base. It is expected that between now and 1966 this number will have been reduced, by transfers to other positions, normal retirement and attrition, to a figure of approximately 650. This number may be augmented by purchase and stores personnel, the requirement for which is related to the Winnipeg overhaul function.

With respect to the remaining overhaul personnel, many of whom will by that time have long service with the Company, nothing more definite can be said at this time than was in the letter.

When there is employment redundancy at a given point in an operation such as TCA, several principles come into play. It is felt that these are:

- (1) An obligation on the part of the company to minimize unnecessary hardship by providing as much advance information as is available to management. This obligation has been discharged by the letter of November 14.

- (2) An obligation on the part of the company to make every reasonable effort within its power to provide alternative employment.
- (3) An obligation on all parties concerned to place the least troublesome interpretation on the terms of union agreements having to do with the exercise of seniority and the transfer of personnel.

In this respect it is felt that there is an obligation on both employee associations and management to avoid the adoption of conditions which can inadvertently work hardship on personnel who find themselves involved in the geographical change of work load.

It should be pointed out that with respect to the Winnipeg situation, management-labour negotiations are at this moment about to commence, but it is hoped that with adherence to the principles referred to above, they can be conducted to the mutual advantage of both the employees and the company.

Mr. RIDEOUT: Mr. Chairman, under what section are we at the present time?

Mr. FISHER: Equipment and facilities.

The CHAIRMAN: Yes.

Mr. FISHER: Mr. Chairman, the question I have relates to facilities.

My question really relates to the pension possibilities vesting. Take, for example, those employees who may want to indicate at an earlier date than 1966 that they wish to separate from the company at that time; I wondered how much leeway there is in the pension plan and whether the pension plan comes under contract arrangements with the trade unions.

Mr. MCGREGOR: Yes, that is a good question. Pension arrangements do not come under negotiation, or they have not done in the past with T.C.A. However, there is a provision in our pension plan for early retirement. I would ask Mr. Harvey to read out the section which refers to this subject. However, I am afraid the rule is not flexible.

Mr. W. S. HARVEY, (Vice President—Finance, and Comptroller, T.C.A.): Mr. Chairman, I am quoting Rule 30(1) "Early Retirement" of the T.C.A. Pension Plan:

Every participating employee, other than a pilot, navigator, or flight engineer, who has attained age

- 64 with at least 21 years of allowable service, or
- 63 with at least 22 years of allowable service, or
- 62 with at least 23 years of allowable service, or
- 61 with at least 24 years of allowable service, or
- 60 with at least 25 years of allowable service, or
- 59 with at least 26 years of allowable service, or

Mr. MCGREGOR: To shorten this, the number is 85; if service and age add to 85 he is eligible.

Mr. HARVEY: Yes. The lowest is 55 with at least 30 years of allowable service, so 85 is the magic number.

Mr. PRITTIE: What arrangements are made if they meet these requirements?

Mr. HARVEY: They can take early retirement.

Mr. RIDEOUT: But with a 25 per cent cut in their pension?

Mr. MCGREGOR: It would be reduced.

Mr. FISHER: What is the situation in connection with an employee who decides to leave in 1966 and remain in Winnipeg, has 20 years of service and does not qualify under this? Does he get out only his own share of the benefits?

Mr. MCGREGOR: Plus interest, yes.

Mr. FISHER: Is there any possibility of this being negotiated.

Mr. MCGREGOR: Yes, I would expect that the question of severance under conditions to which the normal pension arrangements do not apply will be discussed in the negotiations referred to in the statement I read.

Mr. FISHER: I think it is obvious that we are moving toward a portable pension scheme. The Ontario government has introduced it as a live subject in our province, and I think the federal government has proposals before it which relate to this. I would like to put this problem to you. As you know, it may take a number of years for this to go through and I would hope that T.C.A. management, in the negotiations which take place, will keep in mind that there is a trend in that direction. That should give impetus to any arrangements that are taking place because if, by 1967, we had the introduction of a national pension scheme it might come too late to be of advantage to these people.

Mr. MCGREGOR: Yes.

Mr. RIDEOUT: Pensions are portable at the present time in other government services.

Mr. MCGREGOR: Yes.

Mr. RIDEOUT: Both the C.N.R. and the Civil Service?

Mr. MCGREGOR: Yes.

Mr. FISHER: But it is not very likely we will have many people transferring from T.C.A.

At this time I want to compliment Mr. McGregor for this one sentence:

It seemed obvious to management that its personnel at Winnipeg could make more intelligent decisions respecting these many and varied problems, if, at the present time, they had the company's best forecast as to the date upon which it could be expected that a phasing out of the Viscount operation would begin.

I would like to point out to the whole membership of this committee that that is the basic criticism I have had of the C.N.R.; they will not give their employees a chance to make intelligent decisions. Although this has nothing to do with T.C.A., I am pleased that a government operation which in a sense, is competitive and involved in its own way, as is the C.N.R., is in a position to do this; whereas the C.N.R. never has been willing.

Mr. SMITH (*Calgary South*): Mr. Fisher, we are pleased that you are pleased.

Mr. MCGREGOR: Thank you. I suppose conditions vary widely between Airline operations and other forms of transport, but if there is information that can be forecast with reasonable certainty, such as the phasing out of a certain aircraft, there is no reason to withhold the information.

Mr. FISHER: Mr. Gordon's attitude is if you give information it causes trouble. It is better to hit him at the end with the punch.

Mr. McDONALD (*Hamilton South*): How many employees do you have in T.C.A.?

Mr. MCGREGOR: Roughly 11,500.

Mr. SMITH (*Simcoe North*): Mr. Chairman, we have heard a lot of insidious comparisons made between the methods used by the C.N.R. and those used by the T.C.A. and I do not think it is a fair comparison. The railways are much more involved. It is a much more involved situation and there are many different problems, but everyone seems to think the T.C.A. conducts its operations better than the C.N.R. But this is not so.

Mr. SMITH (*Calgary South*): I subscribe to that, Mr. Chairman. Because Mr. Gordon irritates Mr. Fisher that is no reason for him to take the position he does.

Mr. SMITH (*Simcoe North*): Mr. Fisher might wait, when he has these insidious remarks to make, until Mr. Gordon is here.

Mr. FISHER: I am not afraid of Mr. Gordon and I have never been afraid of him.

The CHAIRMAN: Just a moment, gentlemen.

Mr. SMITH (*Simcoe North*): As I say, Mr. Chairman, Mr. Fisher might wait, when he has these insidious remarks to make until Mr. Gordon is here.

Mr. FISHER: It is a perfect analogy.

The CHAIRMAN: Mr. Smith's point is well taken. We have had a meeting in connection with the C.N.R., and I think Mr. Gordon has given very extensive information. I think he has elaborated on answers to questions more than he needed to do, and he has been most generous in any explanations he has given. As those discussions in committee have already taken place I do not think that comparisons are in order at this time.

Mr. LAING: You are going to frighten Mr. McGregor from doing this again.

Mr. SMITH (*Simcoe North*): Mr. Chairman, now that the matter has been raised in the Ontario newspapers—and I understand it also is in the Quebec papers—many members of parliament and some committee members do not seem to wish to wait until the committee report is prepared, and I would like to make a suggestion that before the committee hearings are finished we call on the C.N.R. to provide the same employment report which Mr. McGregor provided yesterday in order that a good comparison can be made rather than the somewhat imperfect comparison which we now have in connection with the numbers of people of French Canadian origin and others in the two companies.

Mr. FISHER: That is an interesting suggestion.

The CHAIRMAN: I think, as I said, Mr. Smith's point is well taken at this time. I think it is unfair to this committee and unfair to the management of both the C.N.R. and T.C.A. for a committee member to go out during the sittings of the committee and give an interview to the paper which, obviously, is for political purposes, condemning the president of the C.N.R. or anyone in the organization, as Mr. Gregoire evidently did last night.

Mr. Gregoire brought a statement to this committee yesterday and asked me if it was in order for him to give the statement to the press condemning the management of the C.N.R. and asking for all sorts of things including the resignation of the president of the C.N.R. I informed him that I thought he should bring that statement to the committee at the time we were preparing our report for presentation to the House of Commons.

I would consider what he did was almost in contempt of the committee's proceedings.

Mr. FISHER: Is there such a thing as being in contempt of the committee's proceedings?

The CHAIRMAN: If there is I think he would be guilty by proceeding to give such a statement to the press in the way it was given last night. I think Mr. Smith's suggestion that Mr. Gordon be asked by this committee to give a similar statement to that which Mr. McGregor has given in respect of the employees of the C.N.R. who are French speaking is a good one.

Mr. RIDEOUT: I suggest that statement should also include reference to French Acadians as well.

Mr. FISHER: I feel this is a good suggestion but I would also suggest that the report be presented to this table rather than bringing Mr. Gordon back here again?

The CHAIRMAN: I would not suggest bringing Mr. Gordon back. I think he should be asked to send us a statement of that type which we can consider in making our final report.

Mr. FISHER: I think we would have a new war of the roses if we asked him back again at this time.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I wonder whether you should ask Mr. Gordon also to tell us how many Scots people there are working in the C.N.R.

Mr. RIDEOUT: Mr. Chairman, it seems that we are now reverting to the discussion of the railway.

The CHAIRMAN: I think we have enough Scots at this table.

Mr. MCGREGOR: May I interrupt to answer more accurately a question asked by Mr. McDonald but which I answered in an approximate way. The answer to this question is; as of December 31, 1961 the total number of T.C.A. employees was 11,548.

Mr. RIDEOUT: Mr. Chairman, we have retrogressed a bit and gone back into the discussion of the railway. I do not wish to invade that area but I should like to ask one question which I intended to ask yesterday.

The CHAIRMAN: Before you ask your question, Mr. Rideout, perhaps I could ask for the approval of the committee to request Mr. Gordon to send us such a statement?

Some Hon. MEMBERS: Agreed.

Mr. FISHER: I presume such a statement would be included in the printed record of this committee?

The CHAIRMAN: We will consider that question later, Mr. Fisher.

Mr. RIDEOUT: Mr. Chairman, I would suggest that the list include the number of French Acadians in the railway's employ as well as the number of French Canadians.

Mr. RINFRET: Perhaps the statement could also indicate the respective departments for which these employees work.

The CHAIRMAN: To be honest, I had not thought about the French Acadians in regard to this report.

Mr. RIDEOUT: Those people are very important.

Mr. BALZER: Yes, they are important around Moncton especially at election time.

Mr. LAING: I suppose all one can do is ask for that.

The CHAIRMAN: We will ask for this.

Mr. RIDEOUT: Mr. Chairman, I should like to go back for a moment and ask another question. I have not taken up too much time of this committee. A thought occurred to me during the discussion Mr. Laing had in regard to the question of a deficit on the Vancouver to Victoria line. As you are no doubt aware, the M.C.A. operates a service from Moncton to Charlottetown and seems to do so at a profit. Is that a comparable line and if not, what is the difference?

Mr. MCGREGOR: I think that is quite comparable, yes.

Mr. RIDEOUT: I understand the M.C.A. is making a fair profit there, is that right?

Mr. MCGREGOR: I do not know whether they are making a profit as a company or in respect of that line, however, they do operate many other services.

Mr. RIDEOUT: Yes, but that service is their original service and their operation has grown since then.

Mr. MCGREGOR: That is true, but my understanding is that their greatest source of revenue does not come from that service.

Mr. RIDEOUT: I have referred to this service for various reasons. I am sure you and the minister are aware of representations made in respect of lengthening the runways at Moncton. There does exist a good deal of correspondence in this regard.

I have before me an article from the *Moncton Transcript* of November 17, 1962 under the headline: "Airport One of Busiest", which states in part:

Moncton airport was the eighth busiest airport in Canada from the standpoint of landings and takeoffs by scheduled air carriers in 1961.

The article goes on and gives a lot of statistics, but I wanted to point out to you in the event you did not already know that the Moncton airport is the eighth busiest in Canada.

I mention the question of lengthening the runways in respect of M.C.A. service between Charlottetown and Moncton, keeping in mind that Charlottetown is the place where this nation was conceived as you will appreciate if you know your history. A great number of people will be attracted to this part of the country during the centennial year. We have been very co-operative with the rest of Canada and we now hope for co-operation in return.

I should like to ask another question which perhaps should be directed to the minister rather than to Mr. McGregor.

The treasury has indicated that some changes are to be made at Moncton. I should like to know how much money has been allotted for this purpose.

Mr. BALCER: I do not remember the amount offhand.

Mr. RIDEOUT: It is intended that this money will be spent in relation to waiting rooms, restaurant facilities, architectural design and the terminal on the same basis as exists across Canada in respect of air terminal buildings?

Mr. MCGREGOR: Mr. Rideout, if you are directing your question to me perhaps I should say to you that this has nothing to do with T.C.A. We have nothing to do with the design or pattern of terminal buildings or, for that matter, runway extensions. This type of thing is dealt with by the Department of Transport. We collaborate with that department when we are asked and make suggestions as to what we estimate the traffic flow will be over the years. In other words, we provide such information as we can in respect of design problems, otherwise we are not involved.

Mr. RIDEOUT: Surely you should be involved, do you not think? If one does not have a place to park his car he must do something about it. In view of the fact that we are the eighth busiest airport in Canada and ahead of many other centres such as Victoria, Saskatoon, St. John, Regina, and even the international airport at Gander as well as Halifax, we feel that the air terminal should have been established at Moncton rather than at Halifax, and I believe that is common knowledge.

Mr. MCGREGOR: I am sorry, I did not realize that.

Mr. RIDEOUT: One cannot get into Halifax. I would like to know whether appropriations in this regard have been made and whether the plan is to go forward in the near future.

Mr. BALCER: I do not remember the actual figure involved now but there is no doubt that we consider Moncton a very important place in Canada, and the airport in Moncton is one of our important ones as far as the Department of Transport is concerned. As far as lengthening the runways is concerned, this depends entirely on the type of plane that is expected to land there. When one considers the fact that in 1964, the date of your extended invitation to the rest of Canada to visit Charlottetown through Moncton, and the question of the length of runways, I do not think there is a problem, because for that short haul between Moncton and Charlottetown, I do not think large planes are required and I am quite sure that the present runways are sufficient.

As far as other traffic is concerned in relation to the length of runways, this depends on the type of planes which will use the Moncton airport facilities.

As far as the Department of Transport is concerned, we do our very best to make sure that planes used by airlines are serviced by the provision of adequate runways.

I suggest that the very importance of Moncton itself provides a guarantee that Moncton will have good accommodation. I do not remember the exact figure set aside for the purpose to which you refer, but I assure you we realize that the Moncton airport is one of our important airports.

Mr. RIDEOUT: Would you say that it is according to the architect's design of other terminals across Canada such as the Ottawa terminal and the Halifax terminal?

Mr. BALCER: I am not too sure.

Mr. RIDEOUT: I am speaking of the design of the new facilities at Moncton.

Mr. BALCER: I will have to check.

Mr. RIDEOUT: We can discuss that later. I might say, to impress you a little more about this situation regarding the Charlottetown deal, that if you have never been there I would urge you to go.

Mr. BALCER: I have been there very often.

Mr. RIDEOUT: Have you ever been in the chamber where Sir John A. Macdonald signed his occupation as cabinet maker?

Mr. BALCER: I have often given my respects to Sir John A. Macdonald as a good Conservative.

Mr. FISHER: Now say something for John Brown.

Mr. RIDEOUT: The province is working at the present time on another crossing over the Northumberland strait. I say that to put to you how important that is and how we feel the situation will appear in 1967. Keep Moncton in mind as your eighth largest terminal in Canada.

Mr. LAING: Seeing we are on this again, I would like to return to Mr. Fisher's gratitude to Mr. McGregor for making an accurate prognostication. However, I would suggest that where the president of T.C.A. may propose, other people dispose. I return to the Victoria-Vancouver run where I recall not so many years ago there was a great hue and cry against those nasty DC-3's which were supposed to be outdated. The Victoria chamber of commerce and others said "we want a decent modern plane on this route". I think you changed to Viscounts, did you not? There was an extension of that runway put in at the cost of \$7,500 or \$8,000, and then our province came along and decided to put in a ferry service from Tsawwassen to Sydney for which our province now is burdened by a debt of \$37 million or \$38 million for the ferry service alone.

Mr. FAIRWEATHER: Tax free.

Mr. LAING: The upshot of all this is that your gross take on that route has been halved since 1960. I am wondering how long you can continue to operate those planes with a gross take of \$890,000 and a loss of \$912,000. It would seem to me that there are forces outside of your control that push you into things that turn out pretty bad. That is a bad set-up. I would like to know how much the cost of that service was increased by the substitution of DC-3's, which was a very fine service.

Mr. MCGREGOR: By Viscounts? I would not think it was increased at all. The frequency dropped of course. The DC-3's that were used on that particular run were 28-seaters which was part of the grumble about them. They were replaced by 54-seat Viscounts, and as a result the frequency dropped by about half. Therefore I would think that the cost of the operation would be quite similar between DC-3's and Viscounts.

Mr. LAING: But the cost to the treasury of Canada on the amplification of that runway was not justified in the light of what has happened.

Mr. MCGREGOR: That was not done because of Viscounts. In fact Viscounts and even North Stars were operated into Pat Bay prior to that.

Mr. LAING: What did you build it for?

Mr. MCGREGOR: Canadian Pacific Air lines operate some of their east-bound transpacific flights through Victoria on occasion, I understand.

Mr. BALCER: Mr. Laing indicated that T.C.A. was forced into some route. Do you advocate dropping this route between Vancouver and Victoria?

Mr. LAING: I do not think it can be dropped, but I am wondering how long this state of affairs can go on where the gross take is not as great as the loss.

Mr. BALCER: That is a social route if there ever was one.

The CHAIRMAN: I am not supposed to talk on this as your Chairman, but it seems to me that both in the C.N.R. and T.C.A. there is a social service factor in all their operation. You have all spoken on the losses on certain lines. There is a tendency in a country as large as Canada to build these social lines on the railways. I have ridden on railways in certain parts of Canada where there were only two or three coaches, yet at the same time in the outlying districts the service is tremendous. I do not mean your particular district, Mr. Laing, because it is an important area, but areas where there are mining developments and so forth in which not many people are travelling it is very fundamental to the development of our country and to the development of both the railways and T.C.A. to give that service which contributes a great deal in many ways, more than the actual revenue returned from the air miles travelled.

Mr. SMITH (*Calgary South*): Our geography imposes this hardship.

The CHAIRMAN: We have to think of it aside from the particular traffic.

Mr. LAING: One of the great marks of change in our country is when our Chairman speaks the way he does. I agree with him but I would like to point out that a crown corporation here is placed in the position where additional and tremendous calls are made on the public treasury, because they are all the same taxpayers in the country, by the action of another government in another area. If we could have in this matter of transportation some understanding between provinces and organizations such as T.C.A. and our railways, we would not be losing the funds which we are manifestly losing at a tremendous rate right now. I think that if the anticipated action of the provincial government in respect of that ferry—which is a magnificent ferry service but very expensive—had been anticipated by T.C.A., some of the things would not have been done by T.C.A.

Mr. BALCER: As far as the Department of Transport is concerned, we have changed the plan for the Pat Bay airport a couple of times on account of that and there was a lot of disappointment in Victoria about it. We are keeping a very close watch on all the other types of air transportation and the effect they will have on air traffic at a given point. That is one of the reasons that we have scaled down the plans for the Pat Bay airport.

Mr. LAING: You have cut your trips in half, have you not?

Mr. MCGREGOR: Just about.

Mr. PRITTIE: I have a question on the Pat Bay airport. I notice that on November 2 when I was going to the coast the flight was held over in Toronto for 14 hours because of fog in Vancouver. Is the Pat Bay airport prepared to take DC-8's or will it be ready soon so that that type of thing will not be necessary?

Mr. BALCER: I am not too sure of the exact length of the runways and what the projected length of the runways will be.

Mr. PRITTIE: So that Vancouver will still be the only place for the DC-8's to land on the coast?

Mr. MCGREGOR: There are two alternates to Vancouver, one in the States and one in Canada. When Vancouver is down, Victoria is just as apt to be down, too. I would like to ask Mr. Seagrim to speak to this question about the alternates to Vancouver and the frequency with which they are used.

Mr. SEAGRIM: The airport at Pat Bay does not lend itself to an extension to a size that would be required for DC-8 aircraft. It is not physically possible to do this. Also, as Mr. McGregor says, the weather at Pat Bay in so far as fog is concerned is quite similar to Vancouver. An inland alternate is called for under the circumstances.

Mr. PRITTIE: Would Seattle be forged in at this particular time?

Mr. SEAGRIM: It may very well be the case. Sometimes the whole coast is foggy.

Mr. SMITH (*Calgary South*): Mr. McGregor, may I ask you a question on equipment and facilities? I am not using the proper term but I am referring to it as your centralized reservation computer which I believe has its headquarters in Toronto.

Mr. MCGREGOR: That is correct.

Mr. SMITH (*Calgary South*): A year ago a number of us in the committee had many kind things to say about your air service. Nevertheless, we were a little unkind with respect to your ground service, and I know that this is something very close to you, because you have said on a number of occasions that you were trying to improve the method of taking reservations and providing a full aircraft.

May I ask you whether or not you are satisfied, now that you have had an opportunity to see this service in operation,—and I refer to the Reservec system—that it is answering so many of the objections which you yourself raised on previous occasions. Then I have a second question.

From time to time I think you have indicated that perhaps a second look would be taken at the possibility of applying a penalty against the travelling public in the event that they end up as a "no-show". This must be a very maddening situation for you when you are trying to reach capacity in your aircraft, and since after all that is the only way you are going to run successfully. It must be very disappointing to you, even with the best computer system, to find that people are not appearing in your aircraft. Would you care to comment?

Mr. MCGREGOR: To deal with the first part of your question, I would say that the Reservec system is a very complicated one, which requires a large amount of training of staff, because it involves completely different procedures both in the telephone answering offices across the country as well as in the Reservec centre. Therefore it was decided a long, long time ago that it would be put into service on a progressive basis; that is, we would not jump in with it and pull out our manual system right away, thereby changing to a fully automatic system overnight. So the first section to be put on automatic reservation comprised the New York services. They came under the Reservec operation early this year. The next step was the Foothill services, while the most recent step has been one direction on the transcontinental service. The whole conversion is about 65 per cent completed.

I can give you the implementation schedule. The New York services that I referred to went into effect on July 5; the Foothill services, that is, the Edmonton-Calgary-Lethbridge route, and the Coastal services (that is Vancouver-Victoria-Seattle) went into operation on September 20; the eastbound maritime flights went into operation on November 1. The balance of "even" numbered flights in the system, that is, including transcontinental, southern, overseas services, and so on, went into operation on November 15; and the final step which would be taken before the end of the year would be in respect of the odd-numbered flights, when the whole system would be under Reservec. I might say that all the performance of Reservec with respect to the routes to which it now applies has given us nothing but cause for congratulation of the people who designed the Reservec system. We are very happy with it, and we are certain that it has brought about improvement in the speed with which reservations can be made, and the speed with which the availability of space can be communicated back to the prospective passenger.

As to the second part of your question which had to do with "no-show" penalty, I do not know what caused you to think that we were taking a second look at it. We have taken surely as many as 15 looks at it over the years, I mean at this policy, or the possibility of it, and each time we rejected it, and each time we have been glad. It has been tried, I may say, in the United States, but with disastrous results. In fact, billing "no-show" passengers was attempted. We have some figures on the response made to that billing, and it was virtually zero.

Mr. SMITH (*Calgary South*): You then say that you think that with the completion of the Reservec system, you will have, to a very substantial degree, corrected the basic problem, and that you do not intend to entertain any suggestion of penalty. That publicly is your answer?

Mr. MCGREGOR: That is correct.

Mr. SMITH (*Calgary South*): You say you are glad. I am glad, too. But I speak as a member, now, of the travelling public, and I still run, with some regularity, into a situation in which we are advised that we are on a "wait-list" basis, and end up on an aircraft which has a large number of vacant seats. I was hoping that perhaps this Reservec system—and I am thinking now of the economy of the airlines—will very substantially correlate information very quickly and provide the flight information so that you would more accurately be able to indicate to your passengers what the state of capacity of a particular flight was, because surely these are not all "show" situations.

Mr. MCGREGOR: There are several reasons for the condition which you describe. I told you about them once upon a time. If connecting flight does not arrive in time for the connection, it will empty the flight, or nearly so, to which the connections are being made; but the Reservec system cannot lie about the capacity of an airplane.

Mr. SMITH (*Calgary South*): You say that you are 65 per cent completed. Would you indicate what portion has yet to be completed?

Mr. MCGREGOR: Yes, I already did so.

Mr. SMITH (*Calgary South*): But would you mind repeating it, please.

Mr. MCGREGOR: The odd numbered transcontinental flights have still to be put on Reserve. These are west bound flights.

Mr. SMITH (*Calgary South*): You are satisfied that this will solve the problem of your public relations?

Mr. MCGREGOR: No, I am not. I am satisfied that it will make a thoroughly accurate job of speeding up reservations, but it will not bring about perfection, —whether it applies to passengers or the “no-show” problem—or make perfection out of something which is not susceptible to perfection.

Mr. SMITH (*Calgary South*): Are you looking at something which will get you closer to perfection?

Mr. MCGREGOR: I do not know anything in the reservation category.

Mr. SMITH (*Calgary South*): Do you consider that you have done everything you can under the circumstances?

Mr. MCGREGOR: At this stage of the art, yes.

Mr. McDONALD (*Hamilton South*): What is the alternative landing field to the Toronto-Hamilton airport?

Mr. MCGREGOR: It is Buffalo, mostly, but there are others.

Mr. McDONALD (*Hamilton South*): Do you find very many re-routings into Buffalo because of fog conditions at Toronto?

Mr. MCGREGOR: It depends; at certain seasons of the year it can happen, but not unduly often.

Mr. McDONALD (*Hamilton South*): Has the Hamilton municipal or Mount Hope ever been considered as an alternate landing facility in the future in conjunction with Malton?

Mr. MCGREGOR: I would not think it would be considered in its present condition.

Mr. McDONALD (*Hamilton South*): I understand that. But has it ever been considered, as reported in the newspapers several years ago, that it might be an alternate to Malton in case of accident or fog?

Mr. MCGREGOR: I think it would be a very expensive standby facility, if it were increased to a size to accommodate transcontinental aircraft.

Mr. McDONALD (*Hamilton South*): You mean to 10,000 feet rather than the 6,000 foot runway?

Mr. MCGREGOR: Perhaps 8,000 as an alternate landing situation; I mean 8,000 feet. But there again, an alternate has to be within a reasonably long distance from the point to which it is acting as an alternate; otherwise the weather conditions applying in one place are just as apt to apply in the other, with the result that it ceases to be an effective alternate. I think Hamilton is a little bit too close to Malton, from that standpoint.

Mr. McDONALD (*Hamilton South*): I checked with the weather people, and they indicated that when ground fog comes off the lake, Hamilton is open, because it is on higher ground and it is a great deal more distant away. I am thinking of the facilities there, with the 6,000, the 4,000 and the 3,000 foot runways, and the fact that it is 40 miles from Malton. If a passenger coming into Toronto is re-routed to Buffalo, it might be inconvenient for him to transfer there; so I wondered if T.C.A. would take a future look at the possibility of using the facilities which are already there, for some of these re-routings and if the Department of Transport might put in some other facilities,

which I understand they have been contemplating over the last few years? I was talking to Mr. Baldwin about it, and I wondered whether it was in your mind, and whether you had looked at it?

Mr. MCGREGOR: Perhaps Mr. Seagrim might tell us if we have looked over the possibility.

Mr. H. SEAGRIM (Senior Vice President, Operations, Trans-Canada Air Lines): Yes; we have looked at these possibilities a number of times. The fact is that these two airports are too close together for the weather differences to be very noticeable. Certainly on rare occasions Hamilton will be clear when Toronto is fogged in, but under ordinary low ceiling conditions, those associated with the movement of fronts, the weather is very similar. Certainly the number of times we could use Hamilton when Toronto is not available would not justify recommending the major airport improvements that would be required to handle large airplanes such as jets which would involve at least a 7,000 foot runway and other facilities.

Mr. McDONALD: (*Hamilton South*): If a foreign carrier applied to run into Hamilton, I assume T.C.A. might oppose this because of lack of traffic.

The CHAIRMAN: I believe Mr. Fisher has some questions.

Mr. FISHER: I will let my questions go until we reach the section on outlook.

Mr. RIDEOUT: In respect of this "no show" business there is also a two-way street in that. We could say "show" and "no go". As you know I was involved in that the other day. I know nothing about flying, but as I was going out to the airport I could not see how they could get off the ground. Forty-eight hours later I detrained at Moncton. Is there not some way they could have known half an hour ahead at the Chateau that that plane was not going? What governs that situation?

Mr. MCGREGOR: As you know, the conditions of what are called permissible limits of ceiling and visibility can disappear minute by minute. This happens on occasion. In respect of this business of forecasting, you could play it extremely safe from the standpoint of not disappointing the passenger by saying where there is any doubt "the plane will not go," and then the flight comes in. This happened a few years ago when we were trying to fly the committee. It should be recognized that weather has an extreme influence on air regularity; not so much as in previous years, but it is still there.

Mr. RIDEOUT: The fellow told me that it did not look good until the morning. He could prognosticate at that time but not an hour before that. The fog, he said, is moving around and will get to a certain point at a certain time.

Mr. SMITH (*Calgary South*): Is it not still up to the captain to make the final decision?

Mr. MCGREGOR: Within certain limits. There are certain limits as to ceiling and visibility below which he may not operate.

Mr. SMITH (*Calgary South*): I think your safety record has shown that you were right.

Mr. RIDEOUT: I did not mean to say that he was wrong. I did not mean to leave that impression.

Mr. BADANAI: I have a question for the minister. I would like to know when a start will be made on the expansion of the Lakehead airport. As you will recall on March 1961 you made a statement to the Chamber of Commerce at Fort William that plans would be ready and tenders called for the fall of 1961 in respect of this. Now, at the present time, passengers disembarking from their planes have to take their baggage outside of the building. Also, the North

Central airline, as you know, is using the airport and finds it inconvenient. This airline flies from the Lakehead to Duluth and points west. Can the minister say when this start will be made?

Hon. LEON BALCER (*Minister of Transport*): I would have to make an inquiry. I do not know off-hand. I would not like to risk an answer right now, because I want to give you the exact answer.

Mr. BADANAI: I have seen periodical requests from various bodies and the chamber of commerce in the city of Fort William asking when these renovations will be made, because they are really needed.

Mr. BALCER: I will give you this information.

Mr. BADANAI: Thank you very much.

The CHAIRMAN: Mr. Laing is next. Have you completed your questioning, Mr. Badanai?

Mr. BADANAI: Yes.

Mr. LAING: Mr. Chairman, before we complete equipment and facilities I would like to ask a question in respect of building airport facilities and particularly, terminals, and I am interested because of the charges that are involved. I think you replied to Mr. Fisher that it was not a large item actually but, nevertheless, it is larger as a result of the magnificence, beauty and so on of the facilities. I think there are some people in Canada who feel that we seem to be in a contest for excellence in these buildings and that a cheaper building could be just as valuable to us as a terminal. In the case of the acceptance of the Vancouver International airport by the department I recall that one of the attractions put out was a statement to the effect that we will build immediately a \$18 or \$16 million terminal.

Mr. BALCER: I am sorry, but I was reading. However, I just missed the last part of your question.

Mr. LAING: One of the attractions put out by the department in taking over the Vancouver international airport was that they would start construction immediately on a \$16 million terminal.

Mr. BALCER: Yes.

Mr. LAING: Why do this? Why not \$8 million or \$24 million? What is the attraction?

Mr. BALCER: This has to do with the size and importance of Vancouver as well as projecting the air traffic for the next 10 years.

Mr. LAING: But the charges imposed on the companies operating there are in relation to the investment of the buildings, I take it.

Mr. BALCER: Not of the individual airport.

Mr. SMITH (*Simcoe North*): How would you like to have one that was not as nice as Ottawa?

Mr. LAING: I beg your pardon?

Mr. BALCER: It does not go by the size of the terminal building at a given airport; we establish landing fees across Canada but they are not decided by the size of a building at a given airport.

Mr. LAING: I have been asked from the rear how Vancouver would like to have one that was not as excellent as Ottawa. Are we getting into a competition in magnificence and beauty which is reflecting on the cost of transportation?

Mr. BALCER: My thinking on this is that Vancouver is the gateway to the Orient. It is a great international terminal; Vancouver is a great city and we want to give Vancouver a useful and appropriate terminal.

Mr. LAING: I am relating usefulness to cost. What is the relation?

Mr. BALCER: In considering the traffic which goes through Vancouver, I am quite sure that the building covers exactly the required needs for ten years to come.

Mr. LAING: But you do not use an airport to live in; you go through it as fast as you can.

Mr. BALCER: Montreal was believed by some to be too large; but, you should be there on a Friday night when the place is jammed with people. The needs of that airport were projected for 12 years from now.

Mr. LAING: I am not referring to the size or the facilities but to marble.

Mr. FISHER: Yes, the grandiose nature of them.

The CHAIRMAN: Evidently the government thinks a great deal of Vancouver.

Mr. PRITTIE: In connection with the Vancouver airport may I say it has a fine building. It is in the constituency of Burnaby-Richmond, which I represent.

Mr. RIDEOUT: But in the extremes of facility magnificance what is the relation of your costs to the space taken? You told Mr. Fisher it was relatively small.

Mr. MCGREGOR: There is no question the rental per square foot of space leased by air lines is related in some degree to the over-all cost of the terminal but, on the other hand, I would doubt whether these rentals begin to discharge either the carrying charges or the upkeep on these larger terminals. However, they are plenty high.

Mr. LAING: You do not think they do?

Mr. MCGREGOR: I know the cost is very high. We pay more per square foot at Dorval than we do on Fifth avenue New York.

Mr. LAING: I have been informed that the comparison of costs between the United States and Canada is \$3.00 and \$15.00 respectively, in some places; is that right?

Mr. MCGREGOR: I would doubt the accuracy of that comparison. Incidentally, in referring to the United States, they are embarking on a fantastic program at Idlewild in New York. The major airlines are building their own terminals there, all to approximate a cost of \$10 million or more.

Mr. LAING: Will marble be used in the construction of those terminals?

Mr. MCGREGOR: I do not know whether marble will be used or not.

Mr. LAING: I have in mind that in British Columbia we have some very excellent wood, and I do not think there should be a question of fire hazard involved in the construction of air terminals.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I should like to ask a follow-up question.

The CHAIRMAN: Since Mr. Laing has got into the bush perhaps we should let him get out again.

Mr. Laing: I am not in the bush.

Mr. McDONALD (*Hamilton South*): You are making a per square foot cost comparison?

Mr. LAING: I am trying to relate space, usage and utility with excellence and grandeur. I feel it is quite possible to have excellent facilities without grandeur. I feel there is a tendency on the part of many Canadians as well as myself to doubt the necessity for all this grandeur in these new airport terminals.

Mr. FISHER: Have you ever been to Gander, Mr. Laing?

Mr. McDONALD (*Hamilton South*): Have you ever been down to Idlewild?

The CHAIRMAN: Are you finished, Mr. Laing?

Mr. LAING: Yes, Mr. Chairman.

The CHAIRMAN: Mr. McDonald, you are next.

Mr. McDONALD (*Hamilton South*): Mr. Chairman, I should just like to ask one supplementary question.

Mr. McGregor, you said that the cost per square foot for airport facilities is fairly high in Canada. Could you relate the cost per square foot, let us say, of the airport at Malton to the T.C.A. facilities at Idlewild?

Mr. MCGREGOR: No. I could not do that directly because T.C.A. occupancy at Idlewild is at an old temporary building and the rental is proportionate. I made the rather invidious comparison between what we pay per square foot at Dorval and what we pay per square foot for a ticket office on Fifth avenue in New York.

Mr. McDONALD (*Hamilton South*): Does that difference not arise from the fact that the charge to United States airlines for facilities in Canada is almost identical to the reverse situation?

Mr. MCGREGOR: Yes, I think perhaps that is the reason, and perhaps a more accurate comparison would be made between Dorval and the terminal at Chicago where we do occupy relatively new premises. I do not know whether I can find the figure in that regard.

Mr. McDONALD (*Hamilton South*): I do not actually need the figure. I just intended to point out that this argument about marble, wood and stone could go on indefinitely. We have the same situation in respect of public and high schools. It is my impression that the air travelling public requires this type of facility and must be catered to.

Mr. MCGREGOR: There is no doubt that the air travelling public must be catered to, but whether we should cater to them to the extent of beauty of surroundings is another question again.

Mr. RIDEOUT: Do some municipalities still own airports?

Mr. MCGREGOR: There is still the one case at Calgary of which perhaps you are aware, or about which you have heard.

Mr. SMITH (*Calgary South*): Thank you, Mr. McGregor.

Mr. MCGREGOR: I think that is the only situation of this kind that remains.

Mr. SMITH (*Calgary South*): Mr. Chairman, I should like to ask a question in regard to this particular point and perhaps it should be directed to the minister rather than to Mr. McGregor.

Some years ago the government encouraged municipalities to own their own airports. The advantage to a municipality in so doing came from the fact that the municipality could regard such an operation as a utility and receive the revenue from such operation. This situation has changed, as Mr. McGregor has stated, leaving only Calgary owning the airport there with Vancouver and Edmonton as the last two areas to get out of this situation. The Department of Transport took over these other airports and consequently the revenue was lost to the cities. However, by the same token, they obtained these new fine airport terminals.

I think the city of Calgary lost in the final analysis as a result of not having perhaps promoted a D.O.T. takeover. Calgary does have a terminal constructed by itself with the assistance of the Department of Transport. It does have a functional building from a utility standpoint, but there is not a bit of marble in it, Mr. Laing. The net result of this is that there is considerable pressure in the city—and I am serving you notice as of now—to have the Department of Transport construct a terminal on the same standard as the one in Regina, Ottawa and other cities. My question to you is whether it would not make sense to try to encourage municipalities to get into the airport owning business, not only from the point of view of the cost to the federal government but also

from the point of view of encouraging the municipalities to take more public pride in their airports and to participate more actively in the aviation industry.

Mr. BALCER: We have never put any pressure on any municipality for them to keep an airport or sell it to the Department of Transport. Take Vancouver, for instance. There were many referendums, yet we did not put any pressure on them. There is no doubt about it, if you look across Canada you will see that most of the large cities are very pleased, and they do not feel that they can handle an airport as well as the Department of Transport.

Mr. SMITH (*Calgary South*): We are now serving notice that we are next on your list.

Mr. LAING: I wish that you would give first consideration in Vancouver to decent access to the airport. We have a swing bridge going to our airport at the present time. People have lost planes because of the bridge.

Mr. FISHER: We are not going to make it by eleven, Mr. Chairman.

The CHAIRMAN: No. I was just going to mention it. Our Conservative caucus is in this room.

Mr. BALCER: You do not have to stay, Mr. Fisher.

The CHAIRMAN: I know the attendants want time to move the tables but I was going to take a chance and recommend to our party—that has very few problems these days anyway—that we might sit just as we are. I would explain to them that we are going to meet this afternoon. I thought by that we would have gained ten minutes or so. The caucus is called for eleven o'clock. I presume you people have also caucuses at eleven.

Mr. RIDEOUT: We have no problems; we do not need a caucus.

Mr. SMITH (*Simcoe North*): Before the committee finishes its hearings, could we have the Minister of Transport provide us with a statement as to the exact system and mechanics that are used in negotiating these foreign air agreements. Could we have statement as to how the developments take place? Would that be possible?

Mr. BALCER: Could you give me a little more precision?

Mr. SMITH (*Simcoe North*): An example is an agreement or negotiation with the United States on landing rights. How do we go about it? Who takes part in it?

Mr. BALCER: The two departments.

The CHAIRMAN: Mr. Fisher mentioned last night the questions he wanted to ask and this helps to expedite things because Mr. McGregor could prepare a statement. If you, Mr. Fisher, or Mr. Prittie or anyone else has something of real importance you wish to bring out later today, perhaps you might mention it now. I think this expedites the proceedings.

Mr. FISHER: I am going to return to the points Mr. Smith made yesterday in regard to the black and the red in the future, when we get to "Outlook".

Mr. RIDEOUT: One of the members in the House of Commons has mentioned to me something about travelling on a pass by T.C.A. and he had to sign his life away to get on. I will speak on that.

Mr. SMITH (*Calgary South*): I have questions the answers to which I am sure are readily available.

The CHAIRMAN: We will meet again here at 3 o'clock or after orders of the day.

—At 10:55 o'clock the committee took recess.

AFTERNOON SITTING

WEDNESDAY, November 28, 1962.

3:45 p.m.

The CHAIRMAN: Gentlemen, I see we have a quorum. I am sorry to have held you up.

Mr. PRITTIE: We are still on equipment and facilities, Mr. Chairman.

The CHAIRMAN: Go ahead, Mr. Prittie. I have a letter here from Mr. Donald Gordon following the questionnaire which Mr. Smith mentioned yesterday, but I would like to look it over first.

Mr. PRITTIE: I have just a comment to make and it is for the minister's ears as well. It is in connection with the move from Winnipeg to Dorval and some employment problems resulting therefrom. I know there is nothing you can do about this particular case because it was planned a long time ago and it is well underway. But last week we had a delegation here from Windsor which was concerned about large private concerns moving to Toronto, and about the evergrowing concentration of public and private business corporations in Toronto and Montreal, with resulting employment problems in other areas. It seems to me a little contradictory that parliament, one of these days, will have to be looking at regional economic aid in certain of these places, yet at the same time we have public bodies helping to cause these problems with the moves they make. This is quite a large industry moving out of Winnipeg.

Mr. BALCER: While we are speaking about air lines, it was a great shock for Montreal when the Dew line resupply contract was moved from Montreal to Winnipeg. The people in Montreal were quite disappointed about it, because it has a sort of effect on the economy and life of Canada. I agree that the government must keep their eyes on matters to make sure that everything is not concentrated in our two large cities. But as far as the Dew line recontract is concerned, it was a very large contract and very important for many air lines. It used to be divided among Vancouver, Winnipeg and Montreal. But now the whole contract is placed in Winnipeg.

Mr. PRITTIE: It seems to me that if you move more industries to Montreal or Toronto you will just be painting the lily, even though there was an exchange including the Dew line. That is merely a comment I wanted to make.

Mr. CHEVRIER: May I ask the minister, in the light of the statement he made yesterday concerning the prairie route, whether there is any intention of taking a similar decision elsewhere with respect to other routes in Canada? I have in mind particularly now the Quebec north shore, and the minister will know what I mean.

Mr. BALCER: No, Mr. Chairman. It was a decision which was announced yesterday and it dealt only with the northern prairie routes. There is no plan at the present time to do and no intention of doing the same thing elsewhere.

Mr. CHEVRIER: There is no similar situation; a similar situation does not exist?

Mr. BALCER: I do not think so.

Mr. CHEVRIER: With reference to the Quebec area, if I may be frank?

Mr. BALCER: No, because everything there is in a completely different position.

Mr. CHEVRIER: Is there any intention to consider a subsidy in the Quebec area?

Mr. BALCER: No, not at the present time, no.

The CHAIRMAN: Are there any further questions?

Mr. CHEVRIER: I would like to ask Mr. McGregor about equipment and facilities, but if this question has been asked, I will withdraw it. My question has to do with the DC-8's. Have you now got the full completion of your order of DC-8's?

Mr. MCGREGOR: No; we will be getting four more DC-8F's. You see there is a distinction between the first 11 aircraft and the second four which have been ordered. The first are known as DC-8's, while the latter four are known as DC-8F's.

Mr. CHEVRIER: What is the difference?

Mr. MCGREGOR: The DC-8F is designed so as to be readily interchangeable between cargo and passenger use by proportionate use of the cabin; it can be flown as all passenger or all cargo or any proportion of each. The engines are different and they have a somewhat longer range.

Mr. CHEVRIER: When do you expect delivery of the remainder of that fleet.

Mr. MCGREGOR: During the first four months of next year.

Mr. CHEVRIER: And what about the other aircraft?

Mr. MCGREGOR: All the other DC-8's have been delivered.

Mr. CHEVRIER: What about the Viscounts? Have you got delivery of all of them?

Mr. MCGREGOR: All except one Vanguard which is being deliberately left with Vickers in order that they may carry out experiments in the matter of propellor synchronization.

Mr. CHEVRIER: Have you disposed of all your North Stars?

Mr. MCGREGOR: All the North Stars, and all but three of the Super Constellations.

Mr. CHEVRIER: I have a question in connection with the CL-44 of Canadair.

Mr. MCGREGOR: We dealt pretty faithfully with it yesterday afternoon.

Mr. PASCOE: Might I ask Mr. McGregor if those two types of DC-8's require the same length of runway?

Mr. MCGREGOR: Yes.

Mr. PASCOE: What would the minimum length be?

Mr. MCGREGOR: I would not like to talk of the minimum length because you might squeeze them in an emergency situation; but we would like to see 10,000 feet. However they could be operated satisfactorily from shorter runways.

Mr. CHEVRIER: Still under services, are you contemplating any extension of your international services from Paris either easterly into Germany, or further east from Dusseldorf and Brussels?

Mr. MCGREGOR: No route extension as such, but we plan a higher frequency on routes where the traffic demand requires it.

Mr. CHEVRIER: Is any attempt being made by T.C.A. to get into American cities such as Seattle, Los Angeles and Miami?

Mr. MCGREGOR: We are in Seattle now from Victoria; we are always hopeful to get other routes through bilateral air negotiations between the two governments, and we have named several desired routes in this respect.

Mr. CHEVRIER: Is there anything you can do within the work which the team is doing on behalf of Canada to negotiate an immediate bilateral agreement with the United States?

Mr. MCGREGOR: We cannot become involved in direct negotiations but we can point out to our own air authority the advantages and the route analysis we have made of potential traffic where it exists on those routes.

Mr. CHEVRIER: In those negotiations or representations which take place with the United States, do you have a member on the team?

Mr. MCGREGOR: No.

Mr. CHEVRIER: Might I ask the minister—if he can give this information to the committee—what departments were represented on the team?

Mr. BALCER: My information is that it was transport, the air transport board, external affairs, trade and commerce and also finance, but I am not sure about finance on this one. However as I understand it, when our team went down to Washington in June 1961—no, it was prior to then—on the previous negotiations—they put quite a lot of pressure on the American team to discuss all the transborder points of the routes between our two countries, and at that time the Americans agreed to discuss the “transborders” which are the short routes, but they said that as far as the long services were concerned, they would have to wait for the report of the presidential commission which has been appointed by President Kennedy.

They are waiting for this report. However, at that time I know that Mr. Baldwin, my deputy minister, was head of the delegation and he put forward the case of Canada in a very forceful way. He expressed our dissatisfaction in respect of the bilateral agreement and stated that our intention was to have this bilateral agreement renegotiated as soon as possible because we are not satisfied with it. They believe that T.C.A. should be able to fly from Toronto and Montreal direct to Miami and other large American cities.

Mr. CHEVRIER: Los Angeles.

Mr. BALCER: And certain cities on the Pacific coast. One must remember, in respect of discussions with the United States authorities, that our large cities are along the border, and they have them all over the place.

Mr. CHEVRIER: When do negotiations start again?

Mr. BALCER: We are still waiting this presidential report.

Mr. CHEVRIER: Have there been any negotiations with the United Kingdom?

Mr. BALCER: Yes. Mr. Thorneycroft came here in the spring.

Mr. CHEVRIER: Was that a negotiation minister to minister or was there a team?

Mr. BALCER: It was minister to minister on the matter of the Canadian Pacific Airlines going into London from the west coast.

Mr. CHEVRIER: Is there any intention of negotiating the United Kingdom bilateral agreement?

Mr. BALCER: Not at the present time.

Mr. BENIDICKSON: But these negotiations, when they come from the Canadian government to another government, such as the United Kingdom or the United States, do not necessarily mean that you are talking about a route for the T.C.A.; it could be some other Canadian air line?

Mr. SMITH (*Calgary South*): Would you mention what you are hoping to obtain from the United States in our bilateral agreement with them?

Mr. BALCER: It is the long run.

Mr. SMITH (*Calgary South*): Chicago-Montreal.

Mr. BALCER: From Montreal-Toronto-Calgary-Vancouver.

Mr. SMITH (*Calgary South*): Vancouver-San Francisco.

Mr. BALCER: Yes: Vancouver-San Francisco, Vancouver-Los Angeles-Dallas, and Miami and Washington, Kansas City, and all these large cities.

Mr. SMITH (*Calgary South*): When you have something specific to discuss together—I am thinking in terms of linking up a Canadian city and a city in either of the other two countries—have you previously made up your mind which air line you are speaking for? That is, do you obtain from the air transport board a decision before you start your negotiations?

Mr. BALCER: It is a government decision. Since I have been Minister of Transport I have never taken part in any bilateral agreement. I know there was one with Mexico and one with Italy which I have signed, but I was not a member of the delegation. We know very well T.C.A. is interested in some cities in the United States, and of course my department is in touch with T.C.A. continually on these matters.

Mr. SMITH (*Calgary South*): I mean before you meet with another government have you had the advice of the air transport board as to their opinion in respect of which of the various aviation companies in our country you are speaking for and which should get the concession, if it is arranged?

Mr. BALCER: Not necessarily. At the present time we have the right to fly into Boston, but we do not use that right.

Mr. CHEVRIER: That is probably because it is too profitable. Is C.P.A. seeking additional terminal points in other countries on its west coast routes?

Mr. BALCER: Do you mean in Asia?

Mr. CHEVRIER: Yes.

Mr. BALCER: Not to my knowledge; no.

Mr. CHEVRIER: Can you tell the committee whether or not they have made representations to the government concerning a span-the-world-route?

Mr. BALCER: There was mention of it, but nothing official.

Mr. CHEVRIER: Have any representations been made by the government of Canada to any company in India other than the fifth rights which C.P.A. now have —

Mr. BALCER: I do not think so.

Mr. CHEVRIER: —on the continent of Asia?

Mr. SMITH (*Calgary South*): Mr. Balcer, you indicated that the team, as I understood it, is chaired by your deputy minister, Mr. Baldwin.

Mr. BALCER: This last time, yes.

Mr. SMITH (*Calgary South*): This brings into question our discussion earlier in which the need of your department in taking the lead in discussions on the bilateral agreements was recognized. Can it be assumed that the proper emphasis by your department is therefore established by virtue of the fact that the deputy minister heads the delegation?

Mr. BALCER: Yes; but you see the preliminary exchanges of views are done through diplomatic channels. For instance, our ambassador in a country like Thailand will discuss the matter with the government over there and their ambassador will discuss it here with our government. After that there will be consultation between our own officials here in the departments of external affairs, trade and commerce, finance, and the air transport board to determine whether it will be in the interests of Canada to carry on discussions with that country which has shown some interest in a bilateral agreement. Then we have consultation with the Canadian air line concerned.

Mr. SMITH (*Calgary South*): I see.

Mr. BALCER: Then the economic and traffic information is prepared by the government agency and by the air line so that the team will be well documented.

Then there are negotiations through channels, depending on circumstances; either exchanges through diplomatic channels or actual meetings between delegates of the governments concerned with the advisers of the air line available to assist the delegates if required. I have been told that in certain countries like Italy, for instance, they have the advantage that they only have one air line and it is easier for them; it is the government air line solely and the representative who is sent to discuss the bilateral agreement is a representative of the air line as well as the government. In Canada it is different. Usually the air lines are represented.

Mr. SMITH (*Calgary South*): Mr. McGregor is indicating a certain amount of support for this argument.

Mr. BALCER: I would not like to leave the impression that the air lines are not taking part in the bilaterals. In Mexico at the last bilateral the Canadian Pacific Airlines was there all the time supplying facts and taking a part in the discussions.

Mr. SMITH (*Calgary South*): I therefore understand that while the Department of Transport is naturally involved in the discussions, the initiation of these discussions is basically at the instance of the Department of External Affairs.

Mr. BALCER: Right.

Mr. SMITH (*Calgary South*): Is this entirely satisfactory from your point of view, Mr. Minister?

Mr. BALCER: I would not like to express a final opinion. I really do not know. It depends on the response.

Mr. CHEVRIER: I would hesitate to ask the minister an embarrassing question, but he spoke about one air line in Italy. How does he feel about one air line in Canada?

Mr. BALCER: Is that what you call an embarrassing question?

Mr. CHEVRIER: I said I would hesitate to be embarrassing.

Mr. BALCER: This is a matter concerning government policy which will be announced in due course.

Mr. FISHER: Yesterday I thought it might be possible for the committee to make a recommendation, in view of the criticism that had been expressed by Mr. McConachie outside and Mr. McGregor here, but it does not seem to me that we really have received the information which will enable us to make an intelligent recommendation.

In following this up I would like to draw to the minister's attention the fact that for the last four or five years we have had in the public domain, apparently, as well as in the House of Commons, in financial and aviation journals statements to the effect that Canada somewhat has sold herself down the river on this whole matter of air treaty rights. If I may say so, I do think the minister should consider a complete review of this situation. I do not say that there is a criticism inherent on only this government and upon previous governments but the whole Canadian attitude in this connection. This is the sort of thing you cannot allow to continue, with all the varied critical views of what has been our policy. We have heard arguments to the effect that other smaller nations have been more realistic and, as a result, have worked out better deals. Because of Canadians' generosity there is a tendency to feel that we are patsies for other nations and, particularly, the Americans—and I would like to underline this to the minister.

Mr. BALCER: I do not know. I do not think so. At the present time the Americans have two applications to land in Toronto; one is in connection with Eastern Air Lines and the other is Mohawk Air Lines. We do not think we are making it that easy for them. I can assure you that it is not a walk-over.

Mr. FISHER: It is the whole situation that exists to which I am referring.

Mr. BALCER: These bilateral agreements do vary tremendously; it depends upon which country you deal with. This has changed very quickly since the war. If you look at aviation you will note that for the first few years after the war American air lines were carrying practically 85 per cent of the people across the Atlantic; whereas now I think this is down considerably.

Mr. MCGREGOR: Yes, much less.

Mr. FISHER: Do these treaties have a clause in them which allows them to be reopened for negotiation at any time?

Mr. BALCER: No, not at any time. Usually they are for a certain number of years, but it varies with various countries.

Mr. FISHER: Could you supply information to questions in the house in regard to each of these without filing all of the treaties.

Mr. CHEVRIER: If I might interrupt, Mr. Chairman, there is a notice of motion on the part of Mr. Lamoureux for all the bilaterals between the United Kingdom, the United States, and so on.

The CHAIRMAN: Are there any further questions in connection with equipment and facilities?

Mr. LAING: I have one question, Mr. Chairman.

What rate of priority would you give to a north and south line out of Vancouver to San Francisco and Los Angeles? Would it be a pretty high priority? As you know, it is very high paying for United.

Mr. MCGREGOR: We would give it a high priority; it is not our most sought after route but close to it.

Mr. LAING: As you know, a great deal of that traffic is made up of Canadians going down for holidays.

Mr. MCGREGOR: Yes, and shopping.

Mr. LAING: And they ride to Seattle and then take a plane.

Mr. MCGREGOR: Yes.

Mr. LAING: Then, since we are providing the traffic I think we should share it.

Mr. MCGREGOR: I agree.

The CHAIRMAN: Despite the devaluation of the dollar?

Mr. SMITH (*Simcoe North*): This morning you mentioned the rent at Dorval and in connection with your offices in New York; how does the rent for offices in these two places compare with rent you pay at Place Ville Marie.

Mr. MCGREGOR: We pay higher rent at the terminal in Dorval than at Place Ville Marie.

Mr. CARTER: Mr. Chairman, before we leave equipment and facilities would Mr. McGregor say if he contemplates any changes either in the service or in the facilities as far as Newfoundland is concerned.

Mr. MCGREGOR: There would be a natural increase in frequency, as fast as the traffic volume will permit it. We have hoped that we would be able to justify a direct flight between Newfoundland and Montreal, and I think this is about to come.

Mr. SMITH (*Calgary South*): Mr. Chairman, I would like to direct a question to the minister. Is there any hope of shortly providing both the department and T.C.A., as well as any other Canadian carrier that may enter New York, something in the way of a terminal base and replace that tired collection of mission houses?

Mr. MCGREGOR: Yes. At the present time we are negotiating with two United States carriers, and another, all of which are acting as the prime

constructor of terminal buildings of their own. I do not think we should talk too much about this now, but we realize the days are numbered in respect to that temporary building. We do realize we have no right to ask the Canadian government to provide us with terminal facilities on foreign soil.

The CHAIRMAN: Mr. Benidickson is next.

Mr. BENIDICKSON: We had some reference to the long-term use by T.C.A. of space in what has been called the aviation building. Is that not a government building and was it not put up at government expense on the understanding that I.C.A.O. would have its world headquarters in Montreal.

Mr. MCGREGOR: It was put up by the C.N.R. and it has been administered by them. As you know, it is adjacent to the central station. The primary purpose of the building was to provide housing for I.C.A.O. and I.A.T.A., together with air lines that wanted to use it. As you probably know, we have terminated our occupancy in that building. We did so last summer at the request of the C.N.R. who, I believe, had been requested by the government because of the need of I.C.A.O. to expand its use of the building very materially.

Mr. BENIDICKSON: Does that involve you in a much greater cost per square footage of occupancy?

Mr. MCGREGOR: Yes, some increase per square foot. But, it was a very advantageous move so far as we were concerned because we had outgrown the space allotted to us in the aviation building. Our headquarters were spread over four locations and, blessedly, at long last we are in one place again.

Mr. BENIDICKSON: I would like to revert to a question raised by Mr. Smith of Calgary. He talked about the source of initiation of these international agreements and I think the answer was that in so far as Canada was concerned we proceed through the Department of External Affairs. Are we being realistic here? Would not the real initiation be on the part of an agreeable commercial company, whether it is crown owned or privately owned, and they look around the world and decide upon the routes that they think they would like to expand into. Do they not do the spadework? I am thinking now of an occasion some years ago where I had the honour to represent Mr. Chevrier at the opening of a C.P.A. route down to Peru. Now, as a result of that trip, I judged that the C.P.A. had spent many months, perhaps years, in negotiating with the governments concerned, and this was long before any government party had asked for treaty rights. I assume, and I want to have assurance, that T.C.A. is equally agreeable in this field and that we must not get the impression we are waiting for someone in external affairs to open up discussions for us.

Mr. MCGREGOR: I think you are largely correct in what you say, Mr. Benidickson. The way these things work, as in the case of established bilateral agreements with the United States and United Kingdom, is that the air line makes an analysis of the traffic position and says to the air authority concerned, either the minister or the air transport board, depending on who is involved: "We would very much like you to reopen negotiations or negotiate an amendment to the agreement by which we would get the right to do so and so." As a rule, we have had informal talks, and the next question is: "As a trade, would you be prepared to give up some routes? For example: Will you be prepared to face competition between Chicago and Toronto?" This is evaluated, and the answer is usually yes, as in that case. So, the analysis of the traffic potential, as you say, normally originates with agitation on the part of the air line. I think one of the reasons Canada has not been more successful in its United States bilateral negotiations is that there is not enough pressure from United States carriers to go into Canada, and for the very reason the minister has mentioned.

Mr. BENIDICKSON: You feel that whenever you see a fruitful field you are commercially aggressive, and do not leave these negotiations, as the newspapers suggested yesterday, to perhaps inadequate, inactive representation on the part of the Department of External Affairs.

Mr. MCGREGOR: No. In many cases bilateral agreements have already been in existence. For instance, we have started service in addition to Paris in Europe to four different countries within the last six or seven years.

Mr. CHEVRIER: Could you name those places for us?

Mr. MCGREGOR: The four places I had in mind are Brussels, Zurich, Switzerland, Dusseldorf, Germany and Vienna, Austria.

Mr. BENIDICKSON: I believe in the case of a private Canadian navigation company they are actually doing the fundamental work. Representatives of those companies go down to find out ahead of time whether another government is likely to accede to their requests. Those representatives approach these other governments to find out whether they intend to propose parallel suggestions in respect of things which the Canadian government might not provide, and I have in mind mail contracts and things of that kind. Those representatives have fairly well tidied up the situation before the Department of Transport or the Department of External Affairs becomes involved or is asked to attend one of those high level meetings.

Mr. MCGREGOR: Mr. Benidickson, perhaps T.C.A. has been too delicate in this matter, but it has always been felt that the last thing T.C.A. should do is enter into foreign government negotiations.

Mr. BENIDICKSON: That has been my feeling as well. I have felt that because you are a crown company you do not feel you can negotiate these matters on a commercial basis in a way that I am sure C.P.A. has done, as well as some of the smaller companies in the midwest such as TransAir and others operating on the international route. I understand those companies do practically the whole job and then ask the two departments to ratify these agreements.

Mr. MCGREGOR: Yes, they must receive ratification.

Mr. BENIDICKSON: I have felt that T.C.A. may have been holding back in regard to some of these matters because of the fact that it is a crown company, and I wondered if the government departments were holding T.C.A. back to any degree in this regard.

Mr. MCGREGOR: I would not say that, Mr. Benidickson. We have always felt that it was strictly an encroachment on the function of government to carry on these negotiations, and I can state emphatically that to do so would very often be embarrassing to the government, and has been.

Mr. PUGH: In the event that T.C.A. desires to establish an air service, and I have the west coast particularly in mind, has it had difficulty because of a quid pro quo being granted as a result of C.P.A. objecting to this, or vice versa?

Mr. MCGREGOR: It has not happened exactly like that. I do remember one case where C.P.A. was seeking a privilege from Australia and the quid pro quo, as you rightly term it, was to be paid by T.C.A. We rather strongly objected to this.

Mr. PUGH: Yes, you objected but I am wondering at this point whether the air transport board becomes involved, and to carry this inquiry a little further, are there mail subsidies provided and that sort of thing?

Mr. MCGREGOR: The air transport board does not become involved in mail carrying at all.

Mr. PUGH: Yes, but I suppose there is the apparent suggestion there?

Mr. FISHER: What suggestion are you referring to?

Mr. MCGREGOR: The suggestion in what regard exactly?

Mr. PUGH: Let me put this another way. Let us start with the same premise. You desire to establish a particular line and the negotiations might involve C.P.A. At this stage who makes the decision as to whether the service is to be established or not?

Mr. MCGREGOR: My understanding of the situation has not always been borne out by fact, but my understanding is that the air transport board's consideration of routes, designation of carriers and so on, ends at the shores of Canada and, thereafter, this becomes the prerogative of the Minister of Transport.

Mr. CHEVRIER: It becomes the prerogative of the governor in council.

Mr. MCGREGOR: Yes.

Mr. PUGH: Having reached the decision that you desire to establish a route, you put forward your case, at which time you feel your part in the negotiation has been completed, and then it is left to the government to negotiate further?

Mr. MCGREGOR: In respect of international routes, yes.

Mr. CHEVRIER: Mr. McGregor, you said earlier that your international routes were profitable. In making that statement were you also referring to the Paris to Brussels route?

Mr. MCGREGOR: No, not as separate services.

Mr. CHEVRIER: That is not a profitable route?

Mr. MCGREGOR: I was including the whole transatlantic service. As a matter of fact, we no longer operate to Brussels.

Mr. CHEVRIER: Could you tell me whether your legs to Dusseldorf, Vienna and Zurich are profitable?

Mr. MCGREGOR: In respect of Dusseldorf, I would say yes. In respect of Vienna I would say no. In respect of Paris I would say yes, and in respect of the British Isles inclusive, Prestwick, London and Shannon, I would say yes.

Mr. CHEVRIER: Is the Vienna leg profitable?

Mr. MCGREGOR: I would say in respect of Vienna that it is not a profitable leg at this time.

In regard to the extension of long transatlantic routes to points after the preliminary landing point, the aircraft are lightly loaded in respect of those particular legs; the whole operation is profitable because the aircraft were well loaded on the main over-ocean route, yet lightly loaded beyond, still operating with large aircraft, of course, so this is not profitable but the whole operation is.

Mr. CHEVRIER: Are you seeking any extensions?

Mr. MCGREGOR: Not at the present time, no.

Mr. CHEVRIER: Have you given any consideration to going into Rome?

Mr. MCGREGOR: Yes, a great deal.

Mr. CHEVRIER: You are not giving any consideration in that regard at this time?

Mr. MCGREGOR: We do not feel there is any point in considering it at the present time because there is a flight frequency limitation imposed by the Italian government under the bilateral agreement, and that is being filled by C.P.A.

Mr. PUGH: Mr. Chairman, I have just one further question. How many airlines are now advertising this package deal including different trips after the original point of destination? I presume this is a prime consideration in your desire and request for extensions?

Mr. MCGREGOR: That is right.

Just before we leave this question in respect of international routes, there is one short statement I should like to make.

The statement was made by myself yesterday that two foreign carriers had the right to operate non-stop between Montreal and Chicago, and I named Air France and Lufthansa. That statement is correct but the fact is that Lufthansa, having the right to carry traffic between Montreal and Chicago, discontinued that service in 1960 and are now flying directly from Chicago to Europe. I would not like to leave the impression that Lufthansa was actually carrying traffic between Montreal and Chicago. As I said yesterday, it does have the right to do so.

To further supplement that statement, although this does not lie within the area of this report, Alitalia is the third carrier with traffic rights, and is using them non-stop between Montreal and Chicago. I did not want to leave the wrong impression in this regard.

Mr. CHEVRIER: Does Lufthansa touch down in Montreal?

Mr. MCGREGOR: No, not on its Chicago operations. It does, of course, otherwise.

The CHAIRMAN: Gentlemen, this morning Mr. Smith (*Simcoe North*) made mention of a statement that appeared in the newspapers, made by one of our committee members, Mr. Gregoire, which he thought was unfair. I think the members of this committee more or less agreed that we should have a statement from the president of the C.N.R., Mr. Gordon, in respect of the number of French speaking Canadians employed by the C.N.R., similar to that statement given by Mr. McGregor.

The statement made by Mr. Gregoire indicated that Mr. McGregor was fairer than Mr. Gordon in giving a list of French speaking Canadian people employed by T.C.A. I feel that it was rather unfair for a member of our committee to go out and make a statement to the press along those lines.

Mr. Fisher asked me what contempt of the committee proceedings was. I said that I did not know but if there is such a thing as contempt of the committee's proceedings Mr. Gregoire's actions would fit that definition.

In any event Mr. Gordon has sent a message with a request that it be incorporated in the proceedings of this committee. I am not going to read the complete letter nor take up too much time, but Mr. Gordon does say that Mr. McGregor has submitted a list which he describes as being a representative list of the French speaking Canadian employees of that company.

Mr. Gordon points out that in the entire system of the Canadian National Railways, the senior and upper middle management group total approximately 1,000 positions. Mr. Gordon has attached a list numbering 132 positions or 13 per cent of the selected management group. In other words, 13 per cent of the top echelon of management positions in the C.N.R. are held by French speaking Canadians.

He goes on to say:

...our basic personnel records do not disclose racial origin, since it is specifically prohibited by the Fair Employment Practices Act that any person seeking employment be required to identify racial origin, religion, and colour.

In order to construct the list, therefore, we had recourse to supplementary data records showing amongst other things those who are fluent in the French language. From this list we selected the names which appeared to be of French origin. The attached list, therefore, is not all-inclusive; it excludes, for example, some who were born in the province of Quebec and are bilingual. The range includes senior line

administrative officers, men of technical and professional attainments, and staff specialists spanning the whole field of managerial activity. By way of illustration, the area manager, Quebec, is responsible, generally speaking, for all railway activities in his territory, and in particular bears primary responsibility for the effectiveness of operations, sales, industrial development, accounting, and personnel management. The general manager, St. Lawrence region, directs the activities of the four areas which comprise the region and bears primary responsibility for operating expenditures in excess of \$100 million annually.

The list of officers in the annual report for 1961 does not adequately reflect the allocation of responsibility and authority under the new form of organization. The 1962 annual report will attempt to do so.

I hope that the foregoing information will be of assistance to the committee.

I am not going to read it but, with your permission I might ask you to allow this to be put on the record because in the St. Lawrence region the positions held by French Canadian employees include:

ST. LAWRENCE REGION

Position	Location
General Manager	Montreal
Assistant to Vice-President and General Manager	Montreal
Manager Industrial Development	Montreal
Manager Real Estate	Montreal
Public Relations Manager	Montreal
Assistant Public Relations Manager	Montreal
Assistant General Claims Agent	Quebec
Associate Passenger Sales Manager	Montreal
Assistant General Superintendent Transportation	Montreal
Regional Mail and Baggage Agent	Montreal
Transportation Assistant	Montreal
Training and Special Projects Engineer	Montreal
Projects Engineer	Montreal
Sales Promotion Officer	Montreal
Assistant Freight Sales Manager	Montreal
Analytical Services Officer	Montreal
Area Manager	Quebec
Assistant Area Manager	Quebec
Office Supervisor	Quebec
Solicitor	Quebec
Operations Manager	Quebec
Superintendent Transportation	Quebec
Assistant Superintendent	Quebec
Chief Dispatcher	Quebec
Assistant Superintendent	Jonquiere
Master Mechanic	Quebec
Industrial Agent	Quebec
Transportation Officer	Quebec
Trainmaster	Joffre
Chief Dispatcher	Levis
Chief Dispatcher	Senneterre
Assistant Superintendent	Senneterre
Assistant Area Engineer	Quebec

Position	Location
Assistant Engineer Maintenance of Way	Quebec
Assistant Engineer Maintenance of Way	Quebec
Superintendent Equipment	Quebec
Assistant Superintendent Car Equipment	Quebec
Area Sales Manager	Quebec
Passenger Sales Manager	Quebec
Area Comptroller	Quebec
Employee Relations Supervisor	Quebec
Industrial Agent	Quebec
Assistant Superintendent	Quebec
Trainmaster-Road Foreman	Montreal
Assistant Chief Dispatcher	Montreal
Chief Dispatcher	Montreal
Assistant Superintendent	Montreal
Superintendent Equipment	Montreal
Trainmaster	Montreal
General Agent Highway Services	Montreal
Trainmaster	Montreal
Chief Dispatcher	Montreal
General Foreman Car Equipment	Montreal
Trainmaster	Montreal
Employee Relations Supervisor	Montreal
Assistant Area Manager	Montreal
Superintendent Montreal Yard	Montreal
General Agent, Express	Quebec
Labour Relations Officer	Montreal
Personnel Assistant	Montreal
Supervisor Freight Data Processing	Montreal
Assistant Supervisor Car Equipment	Montreal
Inspector, Maintenance of Way	Montreal
Shop Foreman, Work Equipment Shop	Montreal

ATLANTIC REGION

Position	Location
Special Assistant, Highway Services	Moncton
Assistant Superintendent, Equipment	Moncton
Area Manager	Campbellton
Superintendent, Transportation	Campbellton
Assistant Superintendent	Levis
Trainmaster	Edmundston
Assistant Superintendent	Riviere du Loop
Trainmaster	New Carlisle
Assistant Chief Train Dispatcher	Campbellton
Sales Manager	Campbellton
Area Comptroller	Campbellton

GREAT LAKES REGION

Position	Location
Real Estate Inspector	Toronto
Work Study Analyst	Toronto
Operations Manager	Capreol
Roadmaster	Cochrane
Instructor of Enginemen	The Pas

HEADQUARTERS

Law

Position	Location
General Counsel	Montreal
Regional Counsel	Montreal
Solicitor	Montreal
Assistant General Solicitor	Montreal
Supervisor Workmen's Compensation	Montreal

Research and Development

Position	Location
Special Projects Officer	Montreal
Senior Work Study Analyst	Montreal
Senior Work Study Analyst	Montreal
Senior Work Study Analyst	Montreal
Sr. Operational Research Analyst	Montreal
Assistant Research Engineer	Montreal
Special Representative	Montreal

Public Relations

Position	Location
Supervisor Display Advertising	Montreal
Chief Translator & French Editor	Montreal
Manager French Services	Montreal

Hotels

Position	Location
Manager Charlottetown Hotel	Charlottetown

Engineering

Position	Location
Senior Mechanical Assistant	Montreal
Mechanical Assistant	Montreal
Architectural Designer	Montreal
Mechanical Assistant	Montreal
Assistant Architect	Montreal
Electrical Assistant	Montreal
Senior Assistant Architect	Montreal
Structural Engineer	Montreal

Motive Power and Car Equipment

Position	Location
Chief Mechanical Engineer	Montreal
Mechanical Engineer	Montreal

SESSIONAL COMMITTEE

HEADQUARTERS (Cont'd)

Sales

Position	Location
Manager Freight Sales Development	Montreal
Freight Statistics Officer	Montreal
Agriculture Development Officer	Montreal
Asst. Manager Passenger Promotion	Montreal
General Sales Manager—Passenger	Montreal
Manager—Mail & Baggage Traffic	Montreal

Accounting and Finance

Position	Location
Supervisor Budgets	Montreal
Senior Methods Analyst	Montreal
Senior Methods Analyst	Montreal
Internal Audit Supervisor	Montreal
Senior Methods Analyst	Montreal
Projects Manager—Data Processing	Montreal
Analyst, Data Processing	Montreal

Medical

Position	Location
Station Medical Officer	Dorval
Medical Officer	Montreal

President's Office

Position	Location
General Assistant	Montreal

Personnel and Labour Relations

Position	Location
Personnel Assistant	Montreal

Investigation

Position	Location
Inspector of Investigation	Montreal

Highway Services

Position	Location
Special Assistant	Montreal

Telecommunications

Position	Location
Superintendent	Montreal
District Sales Supervisor	Montreal
Revenue Accountant	Montreal
Asst. Superintendent (Operations)	Montreal
Plant Supervisor	Montreal
Superintendent	Toronto
Manager, Telecommunications Dept.	Quebec

Mr. SMITH (*Simcoe North*): If this were tabled and made part of the record it would be more meaningful to us.

Mr. RIDEOUT: Have you got the Atlantic region?

The CHAIRMAN: I think so.

Mr. SMITH (*Calgary South*): I think we are convinced. Let us have it tabled.

The CHAIRMAN: I do want you to be convinced that the French Canadians really run the whole show. I think in fairness to Mr. Gordon that this should be on the record.

Mr. FISHER: Where are the Scotsmen?

The CHAIRMAN: We do not allow any Scots in here except Mr. Gordon and you.

Mr. BEAULE: I have a question. Last week Mr. Gordon said he sees no French Canadians able to occupy the position of vice president, and then he gave this list of French Canadians.

The CHAIRMAN: In fairness to Mr. Gordon, this list should be included.

Mr. BEAULE: I understand that, but he told us that he sees no person able to occupy the position of vice president in the C.N.R., and he tabled the names of the members who could not occupy this post.

Mr. SMITH (*Simcoe North*): If we can have this on the record, then when the record is printed we can see what Mr. Gordon said and what other people said, so that when we write our report it will be more meaningful.

The CHAIRMAN: This certainly proves that in the C.N.R. managers' opinion the French Canadians are just as efficient to manage and take the positions as the English speaking employees.

Mr. McDONALD (*Hamilton South*): I move that we include the remarks of Mr. Gordon.

The CHAIRMAN: I never felt that there should be any inferiority complex on the part of the French Canadians because I always felt in trading horses with French Canadians that they were much smarter than I was.

Mr. CHEVRIER: How did you do on harnesses?

Mr. CARTER: Mr. Chairman, is that intended to be inserted in today's minutes or in the minutes of our meetings with Mr. Gordon?

The CHAIRMAN: It will have to come in today's minutes. We had this privilege granted to us in this morning's committee to inject it in today's report. Let us proceed with "Equipment and Facilities".

Mr. CHEVRIER: I thought we disposed of "Equipment and Facilities"?

The CHAIRMAN: You have, pretty well. Is it all agreed? I do not want to cut anyone off. Mr. Fisher, you do not talk too much but you are pretty loquacious.

Mr. FISHER: I just want to speak on "Outlook".

The CHAIRMAN: As long as you do not overlook something.

Mr. BENIDICKSON: I understand that management would see no further desirability in operating the DC-3's. Were we not told this morning that they were put up for sale? Now, in view of these developments, is there going to be a slowdown in the sale? Has it been suggested to them that they should slow down on the disposal of the DC-3's?

Mr. MCGREGOR: All DC-3's that were ever owned by T.C.A. have been sold, with the exception of two, more than a year ago.

Mr. BENIDICKSON: Are you going to try and sell them aggressively or are you going to try and keep them?

Mr. McDONALD (*Hamilton South*): With respect to Mr. Benidickson, this subject was discussed yesterday at great length. I do not wish to try to cut Mr. Benidickson off, but I think that this has been discussed. We are going over something we have already discussed.

Mr. BENIDICKSON: Was it made perfectly clear that you are just as eager as ever to eliminate DC-3's and that they remain actively for sale?

Mr. MCGREGOR: The only two we have will remain because we cannot use any other aircraft on the route on which they are operating.

Mr. BENIDICKSON: That was not my question. My question was that I was aware—I made it my business to find out, although I was not here at that point—that two of these planes were left and that you would like to get rid of them. My question is whether you are moving just as aggressively to get rid of them, in view of the new policy, as before?

Mr. MCGREGOR: It has nothing to do with the new policy, if there is one. It is simply that we are operating between Winnipeg and Lethbridge over the milk run which involves five airports, and those are the biggest aircraft we can get into them.

The CHAIRMAN: Now, gentlemen, shall I read the "outlook" that you looked for?

Mr. SMITH (*Calgary South*): I would like to ask a question about personnel.

Mr. CHEVRIER: I thought that heading had been carried.

The CHAIRMAN: I thought so too, but evidently Mr. Smith did not notice it going by.

Mr. SMITH (*Calgary South*): I am terribly sorry, Mr. Chairman. Mr. McGregor stated that with few exceptions the company is staffed with Canadians, and he was good enough to inform me two years ago of the percentage of his stewardesses who were Europeans. I think you made a good case as to why you hired them.

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): I assume that part of this table would refer to this group.

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Are you in any way advancing or accelerating this policy of hiring non-Canadians as stewardesses?

Mr. MCGREGOR: No, this is the only place we have any reasonable number of non-Canadian born employees, and for the reason mentioned: We like to have multi-lingual people on such routes as those to Germany, and associated nations.

Mr. SMITH (*Calgary South*): It is really related to the transatlantic runs?

Mr. MCGREGOR: Yes.

Mr. PRITTIE: You do not mean Canadian born?

Mr. MCGREGOR: No. I said we concentrated on Canadian born employees, except in this particular area.

Mr. PRITTIE: Do you mean that a Canadian born would have a better chance of employment than a naturalized Canadian?

Mr. MCGREGOR: No. I mean that we would not normally hire a non-Canadian for a job in Canada, but for a transatlantic flight we would.

Mr. SMITH (*Simcoe North*): Because of the multiplicity of languages among those people?

Mr. MCGREGOR: That is right.

Mr. SMITH (*Simcoe North*): Whereas Canadians very often do not have three languages.

The CHAIRMAN: Some of them do not even have two.

Mr. CHEVRIER: I see you do very well.

The CHAIRMAN: Well, I have a command of English and profanity sometimes. I am sorry that I do not have more French because I would like to talk to you in French. I am sorry that I do not know French better. But now shall we proceed with "outlook"?

Mr. FISHER: I have a question: there has been considerable notoriety developed in the United States about certain pictures which were taken within the cabins of various planes. Has it ever been the practice of T.C.A. to check on its personnel, or to carry out this kind of check?

Mr. MCGREGOR: You mean such as the use of hidden cameras? We check, but not that way.

Mr. FISHER: Yes. I was not the one who was exploring the beauty and virtue of the hostesses yesterday. However under "outlook" I have a question.

The CHAIRMAN: This is not on "outlook".

Mr. FISHER: No, no.

Mr. CHEVRIER: It might be an outlook.

Mr. FISHER: What I wanted to ask under "outlook" related to Mr. Smith's questions yesterday which seemed to create a grey area, or some doubt in relation to C.P.A. and T.C.A. future operations and whether or not they would be in the black. Mr. Smith may disagree with me, but it seems to me that by his questioning and the answers he got he left the impression, by putting on the record a statement of the C.P.A. vice president, that within another year C.P.A. will be in the black, and he received an acknowledgment from you that things were going to improve, and that you expected to be in the black shortly. Therefore this whole matter, the whole argument you presented in relation to C.P.A. competition, was an involved one.

Mr. SMITH (*Calgary South*): You are providing me with a motive which I did not have, Mr. Fisher.

Mr. FISHER: I know you are innocent, Mr. Smith. But I wanted to ask for a fuller statement from the president in relation to this outlook matter because I had assumed from earlier evidence that one of the factors very much involved in this whole question is the inability of T.C.A. to take care of more or some of its routes, the so-called social routes, because of the fact that C.P.A. is going into competition with the public service role which the airlines are playing. So I would like a fuller explanation about it from you.

Mr. MCGREGOR: Thank you. I would like to talk to that again. Certainly, if the impression you mention was left, I think I must take the blame for having left it, but to me the matter is a fairly simple one. I do not know whether C.P.A. will move into the black in 1963. I know Mr. McConachie said so, but I also know that he has said the same thing about other years when he did not move into the black.

T.C.A. however could move into the black in 1963, with the rider, however, which is most important, that there will be no further encroachments on our traffic position. There are three or four routes now under application by C.P.A., so I would like to stress the absolute need for the rider that our calculation concerning the 1963 operating position is based entirely on no worsening of our competitive position.

Now, about the social routes, so-called, many of these are operated by T.C.A. Whether or not they move them from black to red is really of no great importance. If the company is black with the social routes, then it would have been blacker without them. Without the social routes the ability of the company to reduce fares would have been greater than would be the case if the social routes are depressing net revenues.

I have recognized that many of these social routes have to be operated in some way or other—a place cannot just be thrown to the wolves so far as air transport is concerned, simply because it does not have the ability to generate enough air traffic to keep a line alive, particularly if it is in a remote area, or across water, or something of that nature—I think it must be recognized that social routes as such, as long as they are operated are a drain on the finances of the company. However if the finances of the profitable routes are such that they can support those social routes, and still not go into the red, probably everybody is happy. Certainly I know I would be happy without some of them. Does that clear it up?

Mr. FISHER: Yes. The question I want to ask is whether you would be prepared to give information—not here but to answers placed on the House of Commons order paper—which would give us an indication of your present wish as to which of your routes are so-called social routes, and as to which are remunerative routes; that is, to do it in detail. I ask you this because of a problem which always seems to come into play when you ask this, is the question whether this information can properly be divulged. I would like very much to have it because of what is a developing situation with regard to the railways, and that is that it seems to have been almost established as a principle now by the MacPherson commission report that there should be an examination of routes, particularly in the competitive area in Canada, to determine whether or not they are properly remunerative.

I would like to see the same principle applied in connection with the air lines so that we might have a better picture of what is involved in the whole matter. It seems to me that it is a principle which could quite easily be as useful in the air as it is—or as it appears to be—in so far as rail lines are concerned.

Mr. MCGREGOR: I would like to say in answer, as I think Mr. Chevrier suggested on Tuesday, that there are routes which may not be profitable today, but which have potentialities. These I would like to exclude from the list you mentioned. And there are routes which, in our opinion, as far as we can see, do not have a profitable potentiality. These I think could be reported upon, but I would point out also, as I did on Tuesday, that a route analysis, an economic route analysis, is an extremely intricate piece of figuring, and to break it down by short legs would be a tremendous task, and one which perhaps would suffer in accuracy in the process. For that reason our route analyses are in fairly good sized packages. It would be quite unfair to say that the route between London and Windsor, which is included in one package, is of itself unprofitable, because the whole package is. So I would want to treat it with a great deal of care. But I would like to bring out and have in the open the really serious cases such as the prairie milk run, and the Vancouver to Victoria run, which is another. I was asked what was the difference between Vancouver and Victoria as compared to Charlottetown and Moncton. I said I did not know, because I did not know the profitability of that particular leg for that particular air line. There may not be any real difference between them.

Any information which T.C.A. has which could be of service to the government in the matter of making a decision in respect of the so-called social routes, we would gladly make available.

Mr. FISHER: I would like to ask the minister whether following the statement given by Mr. McGregor, he would see that questions of this kind are sent forward to T.C.A. for consideration?

Mr. BALZER: Yes. I will certainly send them over. We always do.

Mr. BENEDICKSON: The matter has greater importance if we are going to get into policy.

Mr. BALCER: I must point out that I do not agree with Mr. Fisher's suggestion that exactly the same principle as expressed by the MacPherson report can be applied to the T.C.A.

Mr. FISHER: I said that. I do not say you have to agree.

Mr. SMITH (*Calgary South*): I would like to say to you, Mr. Minister, and Mr. McGregor, that you have not really said anything new other than what you said yesterday in respect of my question. Mr. Fisher may not have understood it, but most of the members of the committee seemed to understand it. I asked if the same fundamental principles existed and whether you hoped you would have an opportunity of eventually making a profit and getting into the black. You used language which was much less colourful than that used by Mr. Harvey a year ago who said, at page 516: If competition was encouraged "we would lose our shirts". That is clearly understood.

The CHAIRMAN: I think what Mr. Fisher was asking, and you too, Mr. Smith, is what are the so-called social lines. After all, if the Canadian National Railways and T.C.A. operated nothing but the really profitable lines, in either case they would not be serving the over-all national interests.

Mr. FISHER: I quite agree.

The CHAIRMAN: I think sometimes we are looking for a profit out of these services where, in a country like Canada with its great size and outlying districts, a service is necessary to people who are developing areas in the far north and also where there may not be roads and so on. This applies to the railways. If we just looked at the profitable lines and took into consideration the dollar sign alone, we would never have the development we have. It is the same in respect of the air lines. As much as I would like to see the air lines in the black, I wonder whether they can or should be in the black.

Mr. FISHER: That is a very interesting point.

The CHAIRMAN: You follow me.

Mr. FISHER: Yes.

The CHAIRMAN: This has relation to the railroads in the mining areas and T.C.A. up in the far north in connection with the development of oil wells, mines and so on. The number of people who travel on these lines might not justify the route, but if you did not have the service you would not have the development.

Mr. BALCER: Actually we should have more social lines. T.C.A. should have enough money to have more social lines.

Mr. BENIDICKSON: Mr. Chairman, I think this discussion has a good deal of merit, but we must remember that we operate here in two different ways. We have a government-owned operation and we talk about a social route, but we do not get the information as to whether it is an economic route or a social route. That is what Mr. Fisher is asking. In the case of other operations carrying on privately, we have items in the estimates under which subsidies are provided specifically for a social purpose. If it is an air route, we have the air transport board; if it is a water route we have the maritime commission estimates. If there are transportation services by water that are claimed to be a social need, we approve of them. But this question is something different. We are being asked for a continuation of certain social needs by a government organization which is criticized for not having a good balance sheet, when this is an operation which perhaps the administration really gave them an order to take on and forget about the balance sheet.

Mr. PRITTIE: They would be in a better position to take it on if they did not lose revenue from other sources.

Mr. LAING: I would like to return to the outlook in respect of the prairies. Is it not a fact that so far what we have dealt with is the determination to drop the route from Prince Albert to Edmonton at this stage? I would ask Mr. McGregor whether the situation is that he is not certain under what circumstances he is going to take over the route from Regina to Prince Albert pending some statement promised by the minister in the house with regard to the leg from Winnipeg to Lethbridge. Is that the situation; that in the meantime the wounded party, P.W.A., is going to be asked to carry on until such time as you are prepared to take over, and that in turn depends upon the statement that is going to be made by the minister in respect of the leg from Winnipeg to Lethbridge. Is that where we stand?

Mr. MCGREGOR: I do not think so. First of all, T.C.A. has always regarded the so-called prairie milk run as Winnipeg, Yorkton, Brandon, Regina, Medicine Hat, and so on. This is not necessarily to be confused with the route now under discussion, which is Regina, Saskatoon, Prince Albert. The two things admittedly join themselves together at Regina, but I think they are two separate problems completely. I said yesterday that T.C.A. was asked to ensure that there would not be a suspension of service on that second route owing to the threatened withdrawal from the service by P.W.A. We agreed to do so and had conversations with P.W.A. The rest of your statement is quite right; I do not know to date what the outcome of those conversations will be. At this moment I do not know whether or not the best over-all solution of this whole problem is an amalgamation of those two routes and integration of the service.

Mr. LAING: But this matter is entirely in your hands.

Mr. MCGREGOR: At the moment.

Mr. LAING: Why did the minister state that he would be making a statement with regard to the Winnipeg-Lethbridge route? When may we expect it?

Mr. BALCER: Some time last year T.C.A. said they were not interested in carrying on the operation of the milk run. They asked us to invite proposals, or rather they have invited proposals from the other regional carriers to see whether or not there would be some other alternative. These proposals have been made before the air transport board and T.C.A. now is considering the matter. They have these facts before them and they have to consider whether they are going to carry on the services as they are doing now or go to something else.

Mr. LAING: Is there any consideration of the retention of their some 48 employees?

Mr. BALCER: They are the people; we have offered them this.

Mr. LAING: Yes, but without subsidy.

Mr. BALCER: Yes, but they said no. They are the ones who have asked to be relieved of this route. We were paying them a subsidy of \$25,000 a month, and they were losing money.

Mr. LAING: But under T.C.A. would it not be a social route.

Mr. BALCER: Yes, but it would be less expensive. T.C.A., by its very substance, is of national character.

Mr. BENIDICKSON: But how do we know it will be less expensive?

Mr. BALCER: Well, that is my guess. T.C.A. has ticketing facilities in Regina as well as in Saskatoon and, as they are operating a milk run, I think it might be less expensive. P.W.A. has its base in Vancouver, whereas T.C.A. has its base in Winnipeg.

Mr. LAING: If a private concern could work out something with T.C.A. you would have no objection, I assume?

Mr. BALCER: No, I would welcome it. We have been working very hard to help regional carriers and have endeavoured to work out all kinds of formulas to assist them. We want to be helpful to regional carriers.

Mr. SMITH (*Simcoe North*): Does the prairie milk run contribute in any way to the Canadian butter surplus?

The CHAIRMAN: Do the members now feel that they have had sufficient latitude in their questioning?

Have you a question Mr. Prittie?

Mr. PRITTIE: At the beginning, Mr. Chairman I wanted to know if we could get some idea of the 1962 operations. Could Mr. McGregor give us any idea of the order of the deficit in the 1962 operations at this time.

Mr. MCGREGOR: The minister asked me that question last August and at that time I replied—if he does not mind—that I was sure it would not exceed \$4,500,000. To judge by the traffic that we have experienced since then—and admittedly we are not at the end of the year by a long way; we have not finalized October's results and we have not November's, and I do not know what is going to happen in connection with December.

I think it is correct to say that our actual deficit for 1962 will be an improvement over that \$4,500,000 forecast I gave the minister in August.

The CHAIRMAN: Do you mean more or less?

Mr. MCGREGOR: Less deficit than that

Mr. PRITTIE: I have one further question. We asked you this year, as you were asked last year, about the amount of revenue which has gone on the C.P.A. transcontinental line, and in answer to my question you stated the 1961 deficit would be around \$1 million or \$1,200,000, in calculating the business revenue loss to C.P.A.

Mr. MCGREGOR: I think there is something wrong with your question, if I understand you correctly.

Mr. PRITTIE: I think you said in 1961 you estimated about \$5,300,000 was lost to C.P.A. in connection with that run. What amount of that would have been profit?

Mr. MCGREGOR: Ninety per cent.

Mr. PRITTIE: So your deficit would be—

Mr. MCGREGOR: \$1.1 million, I think we figured it.

Mr. PRITTIE: Then for 1962 would you just about break even or would you be in the black?

Mr. MCGREGOR: In the black without C.P.A. The diversion in 1962 by C.P.A. has been greater than in 1961, having operated DC-8's throughout the year; and they told us their gross revenue, operating 12 months, based on their 1962 traffic, is in the order of \$8 million.

Mr. SMITH (*Calgary South*): Then your estimate of a year ago did not give that to us, but perhaps that was due to a lack of available information.

Mr. MCGREGOR: And a lack of knowledge that they were going to be operating with a fare differential advantage.

Mr. SMITH (*Calgary South*): It was 5.3 and 5.8?

Mr. MCGREGOR: Yes, and we did not foresee the fare differential.

Mr. SMITH (*Calgary South*): Competition is tough.

Mr. MCGREGOR: Competition is tough.

Mr. SMITH (*Calgary South*): It is the best thing in the world.

The CHAIRMAN: Does everyone feel enough questions have been asked? If so, the next thing we need is a motion for the adoption of the report.

Moved by Mr. Chevrier, seconded by Mr. Laing, that the report be adopted.
Motion agreed to.

The CHAIRMAN: We require someone to move and second the capital budget, which is as follows:

TRANS-CANADA AIR LINES

CAPITAL BUDGET

1962

(Expressed in Thousands)

Application of Funds:

Property and Equipment (details appended)	\$25,300
Increased Material and Supplies (due expanded operations)	7,800
	<hr/>
	\$33,100

Source of Funds:

Net Income	\$ —	
Depreciation	23,000	
	<hr/>	
	23,000	
Sale of Aircraft and Buildings	300	23,300
	<hr/>	<hr/>

Financed through Canadian National Railways	\$ 9,800
	<hr/>

TRANS-CANADA AIR LINES
PROPERTY & EQUIPMENT BUDGET
1962

	1962 Expenditures		
	Projects Proposed Current Budget	Projects Authorized Previous Budgets	* Total
	(000)	(000)	(000)
Airplanes & Components			
Airplanes	\$1,990**	\$14,764	\$16,754
Betterment Projects	678	229	907
Spare Engines	500	—	500
Total	3,168	14,993	18,161
Ground Facilities & Components			
Flight Handling	969	104	1,073
Maintenance & Overhaul	408	166	574
Business and Passenger Office Equipment	764	132	896
Miscellaneous	1,153	224	1,377
Total	3,294	626	3,920
Buildings & Improvements	660	2,259	2,919
Contingency Fund	300	—	300
Total Property & Equipment	\$7,422	\$17,878	\$25,300

Expenditures in subsequent years arising from commitments under the 1962 and previous budgets are:

	1963	1964	Total
4 long range jet aircraft	\$19,191	\$ —	\$19,191
3 long range jet aircraft	4,489	16,740	21,229
8 spare engines	1,500	—	1,500
	\$25,180	\$16,740	\$41,920

* The expenditure with respect to each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditures on the said items do not exceed \$25,300,000.

** Initial payments with respect to 3 additional long range jet aircraft required for 1964. Payments will only be made in 1962 if by not doing so, delivery would extend beyond the required service date in 1964, otherwise this would be added to 1963 expenditures.

Moved by Mr. Pascoe, seconded by Mr. Smith (*Simcoe North*), that the capital budget be adopted.

Motion agreed to.

The CHAIRMAN: The auditor's report follows.

J. A. DE LALANNE
Chartered Accountant
507 Place D'Armes, Montreal

February 22, 1962.

To The Honourable The Minister of Transport,
OTTAWA, CANADA.

Sir:

As auditor of Trans-Canada Air Lines, I report, through you, to Parliament on my audit of the accounts of that Corporation for the year ended December 31, 1961.

I have signed a separate report in the following terms which, together with the related financial statement, is included in the annual report of the Corporation.

"I have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1961 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the Corporation at December 31, 1961 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation."

I offer the following further comments—

CAPITAL ASSETS

Property and Equipment

There was an increase of \$65,706,172 during the year in the net investment in Property and Equipment, as summarized hereunder:

Additions

Aircraft and component parts—including 4 DC8's and 17 Vanguards	\$80,204,461
Ground facilities and components—including Van- couver maintenance base	6,611,442
	<hr/>
	86,815,903
Less: Retirements—including 1 Super Constellation, 21 North Star, 5 DC3's and 1 hangar at Vancouver	23,763,587
	<hr/>
	63,052,316

Decrease in accumulated depreciation—after applying
 \$21,648,357 for Property and Equipment retired
 during the year 2,653,856

Net increase in Property and Equipment \$65,706,172

Depreciation has been provided on a "straight line" method as follows:

Aircraft—to reduce to residual values over periods of years from date of being placed in regular service.

DC3	—reduced to residual value in prior years
Super Constellation	—seven years
Viscount	—nine years
DC8	—period increased from ten years to twelve years commencing with the year 1961
Vanguard	—ten years

Ground Facilities—to amortize over estimated useful life, the period depending upon the type of asset.

All units of the Super Constellation fleet have been removed from scheduled service subsequent to December 31, 1961.

Progress Payments

These amounted to \$12,191,885 at December 31, 1961 and were \$46,345,332 lower than at the end of the previous year.

They apply to the following commitments, including capitalized interest:

Aircraft—

3 Vickers Vanguards for delivery in 1962	....	\$ 4,799,490
4 Douglas DC8F's for delivery in 1963	.....	2,744,241
Buildings and Automatic Reservations System	..	4,648,154
		<u>\$12,191,885</u>

Further payments totalling \$33,000,000 remain to be paid either prior to or on completion of present contracts.

As the conversion from piston aircraft to an all-turbine fleet is now virtually completed, the following table (expressed in millions) may be of interest to indicate the progressive investment in Property and Equipment during the conversion period.

	<i>Additions including progress payments</i>	<i>Sales and retirements</i>	<i>Investment Cost</i>	<i>at end of year Accumulated depreciation</i>
1954			57.7	28.0
1955	16.4	1.9	72.2	31.5
1956	10.4	1.6	81.0	37.0
1957	26.0	1.5	105.5	42.4
1958	36.3	3.2	138.6	49.9
1959	60.7	1.8	197.5	61.0
1960	82.3	4.2	275.6	72.5
1961	40.5	23.8	292.3	69.9
Total—7 years ..	<u>\$272.6</u>	<u>\$ 38.0</u>		
Increase in 7 years			<u>\$234.6</u>	<u>\$ 41.9</u>

The programme has been financed from funds made available from the Air Lines operations and sale of assets, and loans and debentures which increased during the seven-year period by \$204,571,000.

LOANS AND DEBENTURES

During the year there was an increase of \$18,571,000 in the loans payable to Canadian National Railways. There was no change in debentures outstanding.

Notes and debentures outstanding at December 31, 1961 become payable as follows:

Notes

Demand	\$ 27,000,000
Maturing in 1962, subject to renewal	18,571,000

Debentures

Maturing December 15, 1964 but exchangeable at the option of the holder on or before June 15, 1964 for debentures of the same issue maturing in 1971	34,994,000
Maturing in 1967—1987	147,106,000
	<hr/>
	\$227,671,000
	<hr/>

MATERIALS AND SUPPLIES

During the year, the inventories of the piston aircraft fleet were reduced by approximately \$3,000,000 as a result of the progressive retirements of this type of aircraft.

On the other hand, the provisioning for the DC8 and Vanguard fleets required an additional investment of some \$10,000,000 in Materials and Supplies.

UNAMORTIZED AIRCRAFT INTRODUCTORY COSTS

Further amounts were deferred in this connection during the year 1961 consistent with the policy adopted in 1960. The unamortized balance at December 31, 1961 was \$3,047,765.

INSURANCE FUND AND RESERVE

The fund was increased during the year by \$2,672,290 representing interest earned on securities of \$297,288 and accruals of \$2,375,002 charged to operations.

There were no charges against the fund during 1961.

At the end of the year the fund was comprised of—

Securities—at cost	\$8,262,712
Cash and accrued interest	99,645
	<hr/>
	\$8,362,357
	<hr/>

The quoted market value of securities at December 31, 1961 was 7% lower than cost as compared with 13.5% at the end of the previous year.

RESERVE FOR PROPERTIES, PLANT AND EQUIPMENT

During the year an amount of \$2,602,963 was charged against this reserve in connection with the retirement of the DC3 and North Star fleets, leaving a balance of \$4,238,705 in the reserve at December 31, 1961.

CURRENT POSITION—WORKING CAPITAL

There was a decrease of \$5,056,073 in working capital during the year attributable as under:

Funds Provided from—

Depreciation and amortization		\$19,921,497
Increase in advances by Canadian National Railways		18,571,000
Retirements—Property and Equipment	\$23,763,587	
Less: Amount charged against accumulated depreciation	21,648,357	2,115,230
		<hr/>
		\$40,607,727

Funds Applied to—

Additions to Property and Equipment including progress payments	40,470,571	
Aircraft introductory costs to be amortized	2,070,643	
Adjustment in value of Materials and Supplies related to retired aircraft—		
Charged against reserves	3,122,586	45,663,800
	<hr/>	<hr/>
<i>Decrease in Working Capital</i>		\$ 5,056,073
		<hr/>

STATEMENT OF INCOME

Income from operations, before providing for depreciation was \$7,341,659 higher than in 1960—revenues showing an increase of 11% as against only 7% in operating expenses before depreciation.

However, this improvement was more than offset by higher depreciation and interest charges arising from the progressive delivery and placing in service of the new turbine aircraft and supporting facilities during the latter part of 1960 and throughout 1961, the increases being as under:

Depreciation and amortization	\$6,250,194
Interest on loans and debentures	\$2,413,867

In addition, in keeping with established practice, capitalization of interest ceased with the acceptance and placing in service of these aircraft and facilities and, hence, there was a marked reduction in the aggregate amount of interest capitalized. The effect of this reduction on the net earnings for 1961 is reflected in the lower amount of non-operating income as shown in the statement of income.

GENERAL

Where applicable, foreign currencies at December 31, 1961 have been converted at rates similar to those in effect in prior years—viz. United States dollars at par and sterling at \$2.80 to the pound.

I wish to extend my thanks and appreciation to the officers and staff of the Corporation for their continued co-operation and assistance in the conduct of my audit.

Yours faithfully,

J. C. deLalanne,

Chartered Accountant.

Mr. FISHER: Mr. Chairman, Mr. deLalanne is here. He has set here for several days and perhaps if we did not ask him some questions he would be offended. He might even want to ask a question about Midland Superior.

The CHAIRMAN: I do not think he would be offended if you did not ask him any questions; rather I think he would be flattered, although I do know he likes to make speeches.

Mr. FISHER: I have one question.

Mr. MCGREGOR: Just before you proceed Mr. Fisher, could I say that owing to the procedure we adopted at the beginning of this hearing we have not the report in the record. I suggest that may be you would like to have it turned over to the official reporters.

Some Hon. MEMBERS: Agreed.

The report follows:

BOARD OF DIRECTORS*

Appointed by Governor-in-Council

G. R. Hackett, Vancouver.

J. Campbell Haig, Q.C., Winnipeg.

A/V/M C. M. McEwen, C.B., M.C., D.F.C., LL.D., Toronto.

G. R. McGregor, O.B.E., D.F.C., F.R.Ae.S., Montreal.

Elected by the Shareholders

R. A. Brown, Jr., Calgary.

Donald Gordon, C.M.G., LL.D., Montreal.

J. L. Levesque, Montreal.

H. I. Price, Toronto.

W. G. Stewart, Q.C., Moncton.

*As at December 31, 1961

Officers

President: G. R. McGregor, O.B.E., D.F.C., F.R.Ae.S.

Vice-President, Operations: H. W. Seagrim

Vice-President, Sales: W. G. Wood.

Comptroller: W. S. Harvey.

General Manager, Purchases and Stores: H. C. Cotterell.

Secretary: R. H. Tarr.

General Counsel: H. C. Friel, Q.C.

Executive Offices

International Aviation Building, Montreal, Quebec

THE YEAR IN BRIEF

	1961	1960	% Change
Revenue Passenger Miles (000's) . . .	2,481,122	2,050,600	+21%
Revenue Ton Miles (000's)	278,455	233,401	+19%
Average Return per Passenger Mile	5.81¢	6.25¢	— 7%
Average Return per Revenue Ton			
Mile	58.73¢	63.16¢	— 7%
Passenger Load Factor	64.1%	66.0%	
Weight Load Factor	53.4%	57.9%	
Operating Costs per Available Ton			
Mile	31.30¢	36.72¢	—15%
Deficit	\$6,450,082	\$2,607,350	

FINANCIAL REVIEW

Operating results for 1961 compared with those of 1960 are as follows:

	1961	1960	Change
Income from operations..	\$22,065,540	\$14,723,881	+\$7,341,659
Depreciation and amortiza-			
tion	19,921,497	13,671,303	+ 6,250,194
	<u>\$ 2,144,043</u>	<u>\$ 1,052,578</u>	<u>+\$1,091,465</u>
Non-operating income—			
net	1,917,208	4,437,538	— 2,520,330
	<u> </u>	<u> </u>	<u> </u>
Income before interest			
expense	\$ 4,061,251	\$ 5,490,116	—\$1,428,865
Interest on loans &			
debentures	10,511,333	8,097,466	+ 2,413,867
	<u> </u>	<u> </u>	<u> </u>
Deficit	<u><u>\$(6,450,082)</u></u>	<u><u>\$(2,607,350)</u></u>	<u><u>+\$3,842,732</u></u>

ANNUAL REPORT MONTREAL, FEBRUARY 28, 1962

To the Honourable, the Minister of Transport, Ottawa

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1961.

Financial

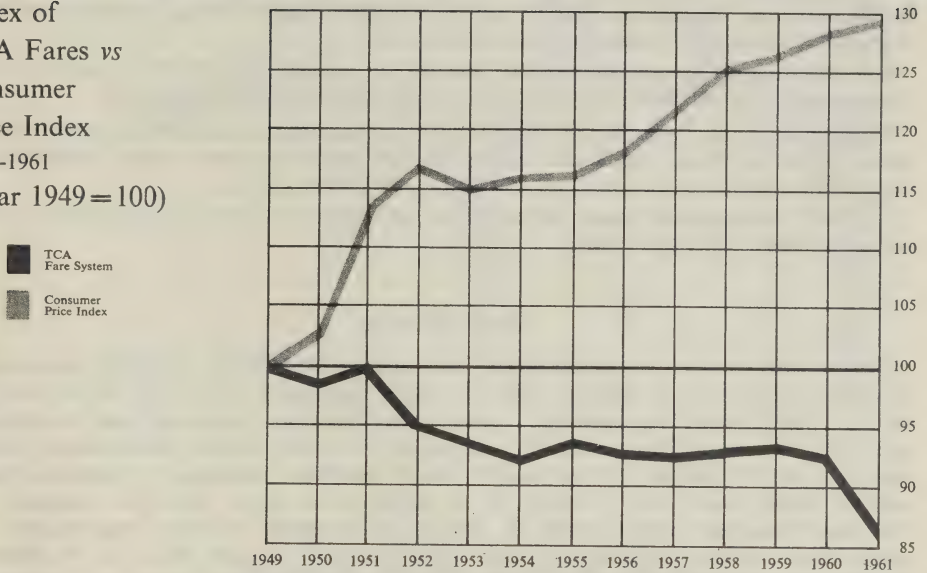
This was a paradoxical period of airline operations in which record traffic volume was accompanied by the largest deficit in the Company's history. A new domestic fare structure proved immensely popular and there was a heavy increase in passenger business. Simultaneously, however, passenger demand shifted so emphatically towards Economy class service that there was a pronounced deteriorating effect on the Company's average revenue realized per passenger mile, this declining from 6.25¢ in 1960 to 5.81¢ in 1961. While 44% of the Company's passenger traffic had been Economy class in the previous year, and an increase to 69% had been forecast, the actual figure rose to 79%. This revolution in travelling habits more than offset the Company's achievement of substantial economies as evidenced by a very satisfactory reduction in operating cost per available ton mile from 36.72¢ to 31.30¢. Obviously this discrepancy between revenues and expenses requires remedial action.

The year's deficit amounted to \$6,450,082.

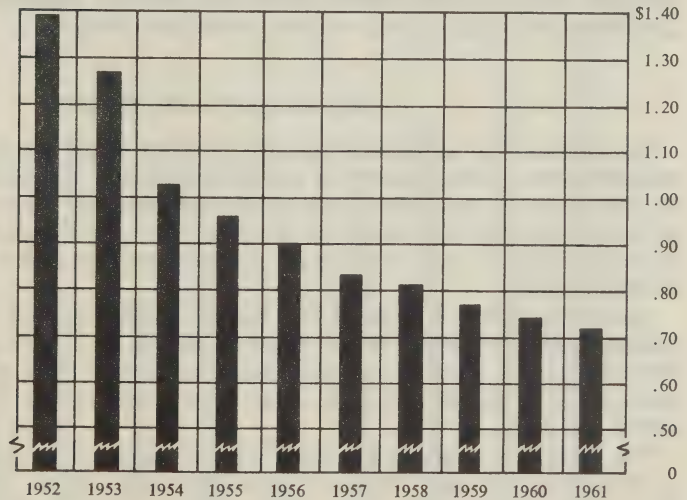
Acquisition of larger and faster aircraft resulted in a capacity increase of 24% in seat miles. When it is considered that a single aircraft of the speed and size of a DC-8 can do the work of four Super Constellations, some appreciation can be gained of the very great increase in airline productivity made possible by the introduction of the modern equipment.

Passenger miles grew by 21%. This compared well with the experience of the United States trunk airlines whose aggregate traffic increase was only 1% in 1961. Because of the much greater capacity offered, the system passenger load factor declined to 64% from the 66% of the previous year.

Index of
TCA Fares vs
Consumer
Price Index
1949-1961
(Year 1949=100)



Average Return
per Mail
Ton Mile—
North American
1952-1961



Another noteworthy effect of the revised fare structure, which offered its principal benefits on the longer routes, was the lengthening of the average domestic passenger journey from 498 miles in 1960 to 556 miles in 1961.

Income before interest expense was \$4,061,251.

The development of a more productive aircraft fleet was reflected in the substantial rise in costs associated with its acquisition and ownership. Depreciation expenses were up by \$6,200,000, net interest on borrowed capital by \$4,800,000 and insurance charges by \$1,700,000. These items, taken together, represented a 67% increase in ownership costs.

Capital expenditures totalled \$40,500,000, of which \$26,600,000 involved new aircraft and \$13,900,000 was required for associated ground facilities.

There was an increase in the productivity of personnel, assisted by the larger, faster aircraft. While available ton miles rose by 29%, the average number of employees increased by only 5%. Total payroll was up 7%.

Aircraft introductory costs incurred in 1961 to the amount of \$2,149,000 will be amortized over four years.

Tariff Changes

The general passenger fare revision, introduced by TCA on its North American services on January 2, had the effect of lowering the price of air travel on all but the short routes. In general, it gave Canadians the lowest air fare structure in the world and, at the same time, attempted to more closely relate ticket price and the cost of operations on specific route lengths. Inexpensive domestic excursion fares were also offered on a nation wide basis and the amount of passenger baggage carried free of charge on domestic services was raised to international levels, both these steps being the first of their kind on the North American continent. Simultaneously there was a wide extension of Economy class service, a policy supported by subsequent public demand. Later in the year new excursion fares were introduced between Canada and the islands of the Caribbean, reducing travel costs by as much as 35%.

Service and Traffic Growth

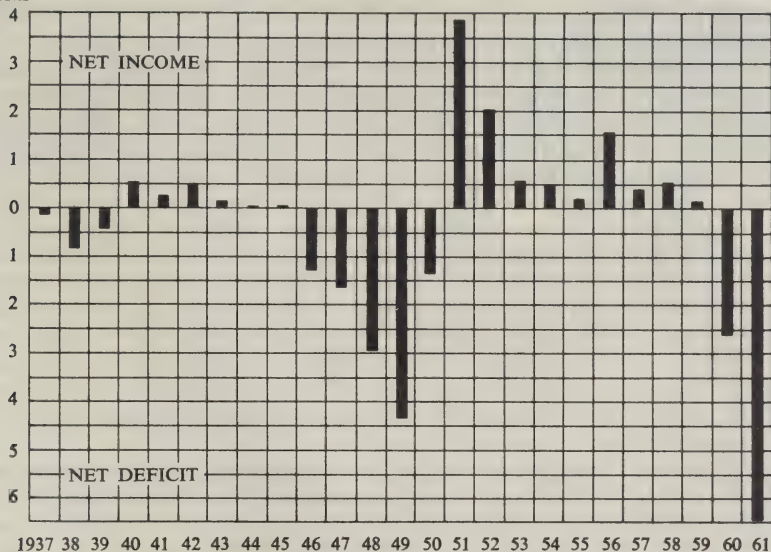
The delivery of additional modern aircraft made possible a further marked improvement in the quality of air transportation throughout the TCA system. In 1961, turbine powered equipment accounted for 89% of all mileage flown as compared with 61% in 1960. In December this figure had risen to 95%. To travellers and shippers this meant superior service and a substantial reduction in flight times.

Use of the 550 m.p.h. DC-8 jets was intensified on both transcontinental and overseas operations. All North Atlantic services were flown with these aircraft after January 4. During the busy summer months TCA jets offered 508 transcontinental seats daily in each direction and approximately 2,600 seats weekly across the ocean.

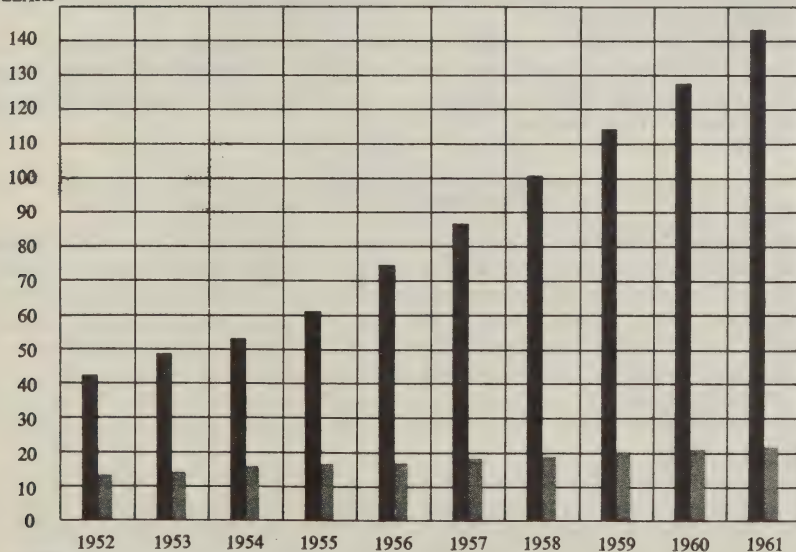
The airline introduced the third aircraft type of its planned all-turbine fleet on February 1 when Vickers Vikings began flying between Montreal and Vancouver with enroute stops. These large turbine propeller aircraft, carrying 96 passengers at 425 m.p.h., were later extended to the Atlantic Provinces and to the New York and Chicago routes.

An aggressive promotional campaign, employing advertising and other sales techniques, lent support to the Company's services and in large measure contributed to the healthy growth of traffic.

Net Income or Deficit, 1937-1961

MILLIONS
OF DOLLARS

Sources of System Revenues, 1952-1961

MILLIONS
OF DOLLARS

■ Pgr.
■ All other

Air freight traffic rose by 17% and air express by 7%. While this was an encouraging trend, the Company's capacity for the movement of cargo far exceeded the volume of shipments. On the transcontinental route east-bound commodity traffic was less than half of that moving to the west. This directional imbalance reflects the concentration of industry in central Canada. Fortunately, the introduction of Vanguard aircraft with their flexibility of passenger and cargo loading did much to relieve the serious economic problems that are involved in an all-freight operation at the present time. The transcontinental service with all freight North Stars was withdrawn, but the size and speed of the large turbine powered aircraft produced an overall increase in TCA's domestic air cargo capacity from 1960. An active sales program endeavoured, with considerable success, to stimulate greater use of air shipment by Canadian industry. TCA joined other international carriers in a sharp reduction of trans-Atlantic air cargo rates effective September 1, with a resultant growth of traffic.

Volume of mail carried by TCA increased 3%. The bulk of this moved within Canada where the "all-up" transportation of First Class mail by air continued to set an example in the Western hemisphere. The Company's contract with the Post Office Department calls for lower remuneration per unit of mail carried as the volume of such transportation increases. This trend is illustrated historically on page 6.

TCA concentrated on strengthening its existing route structure in 1961 but did inaugurate two new services. A summer Viscount service connected the Atlantic Provinces directly with New York and Boston and a new DC-8 operation was introduced between Cleveland and London, England via Toronto, providing a direct jet service between the mid-western United States and the British Isles. Much greater capacity was offered between Canada and continental Europe, a daily Paris flight being operated during the summer.

The Company continued its commercial agreement with the British Overseas Airways Corporation on the North Atlantic. This not only made possible substantial economies for both carriers but also provided the travelling public with a wider choice of travel times and greater convenience than would have been otherwise possible.

At the close of the year TCA was operating over 39,519 miles of air routes and giving service to 59 communities in North America, the British Isles, continental Europe and the Caribbean. A map of that route structure appears in the centre of this Report.

Equipment and Facilities

Throughout the year there were steady deliveries of new DC-8s and Vanguards and a corresponding retirement of Super Constallations and North Stars. By December, TCA was operating ten DC-8s on its transcontinental and trans-Atlantic services and to Florida and the Caribbean; 20 Vanguards on domestic and transborder operations and 49 Viscounts on its shorter routes. All of the airline's 21 North Stars were sold and only a few Super Constallations, flying between Canada and the Caribbean and two DC-3s on the Prairie route, remained to be retired before TCA became completely equipped with turbine aircraft.

The last North Star flight took place on June 30 concluding fourteen years of valued service by one of the most reliable commercial aircraft ever built.

In December an order was placed for four DC-8F aircraft to be delivered in the spring of 1963. Virtually indistinguishable from the Company's present DC-8 fleet, these aircraft will have the added advantage of greater flexibility of passenger and cargo load. They will provide the additional passenger capacity required in 1963 and at the same time enable the airline to participate efficiently in the growing trans-Atlantic air cargo market.

In 1961 TCA completed 98% of all scheduled aircraft mileage. This was particularly gratifying in a period of large-scale transition to turbine power and testified to the skills of the Company's operational staff. The introduction of Vanguards was accompanied by a number of mechanical problems of the nature generally associated with new aircraft types. By year end this fine equipment had vastly improved its performance and was satisfactorily doing the job for which it had been purchased.

The first full year of operation of the Company's Dorval Base for the overhaul and maintenance of its turbine fleet proved highly satisfactory. In December a smaller maintenance base was officially opened by the Minister of Transport at Vancouver. Construction proceeded on a similar facility at Halifax.

In August the airline moved its operations from Sault Ste. Marie, Michigan to Sault Ste. Marie, Ontario with the opening of the new airport at the latter city.

A new London city ticket office on Regent Street was officially opened in March by the High Commissioner for Canada in the United Kingdom.

A cordial and constructive relationship between the airline and the Department of Transport again contributed to the improvement of Canada's airport and airway facilities. Terminal building, runway and navigational aid construction promised further advances in the quality of air service.

Board of Directors

The Directors wish to express their deep regret at the deaths of Mr. E. W. Bickle and Mr. R. A. C. Henry. Mr. Bickle was a member of the board at the time of his decease, while Mr. Henry had recently retired from that position after many years of valued service.

Retiring from the Board in 1961 were Mr. Wilfrid Gagnon and Mr. J. A. Northey, to both of whom the airline is deeply indebted for long and dedicated service.

Appointed to the Board in 1961 were Mr. R. A. Brown, Jr. of Calgary, Mr. J. Campbell Haig, Q.C. of Winnipeg, Mr. J. L. Levesque of Montreal and Mr. H. I. Price of Toronto.

Personnel

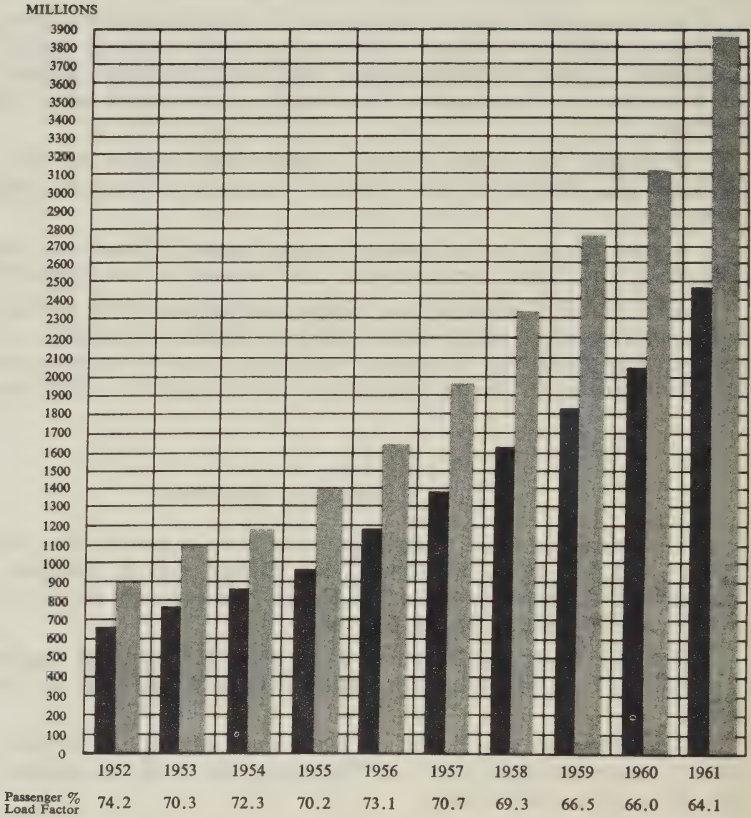
The airline's staff, numbering 11,548 at the end of the year, comprised a highly skilled working force, competent in all aspects of air transportation. With a very few exceptions the Company was staffed by Canadians, most of them with years of experience in the industry. Included in TCA's ranks were many of its original employees who pioneered mainline air transportation in Canada in 1937-38.

The demands of equipment transition, the introduction of new methods and facilities, and a substantial traffic increase made 1961 an exacting period for all personnel. However, performance was of a high quality and the Board of Directors take this opportunity to express their appreciation.

Relations with organized labour remained healthy. Although strike action was threatened by the airline's flight attendants in June, because of a dispute associated with the introduction of jet aircraft, an amicable understanding was reached.

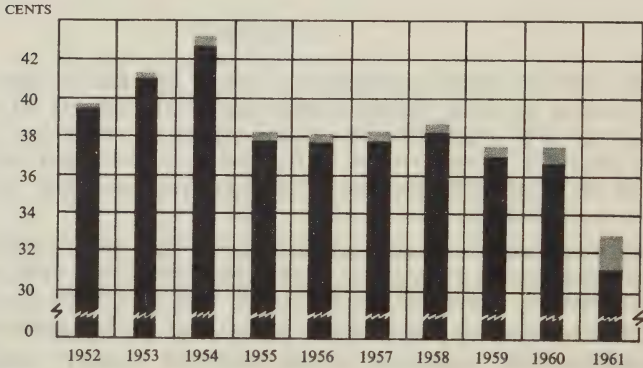
Available
Seat Miles
and Revenue
Passenger
Miles
1952 - 1961

Available
Seat Miles
Revenue
Passenger Miles

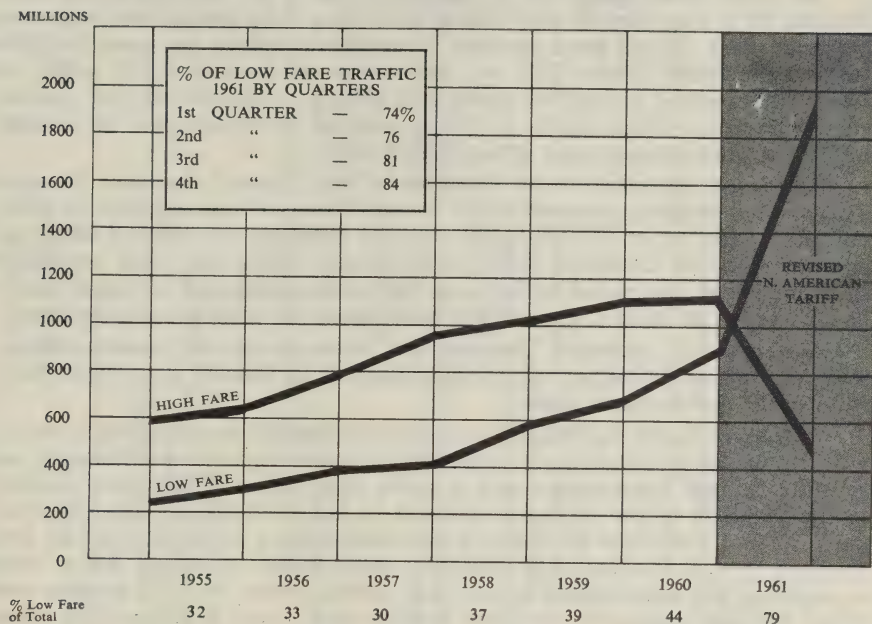


Operating
and Total
Costs per
Available
Ton Mile
1952 - 1961

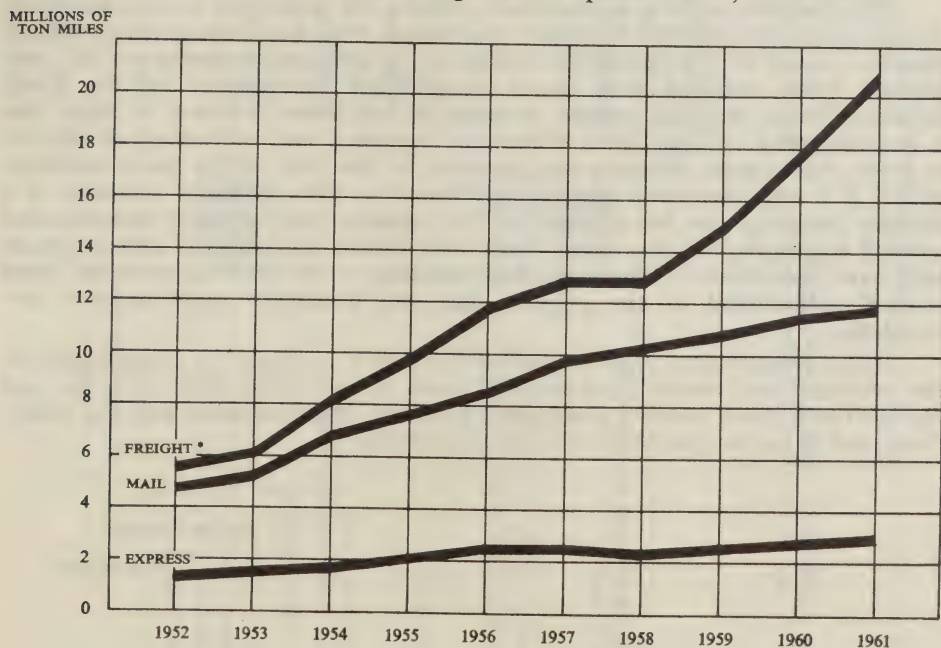
Operating
Costs



Revenue Passenger Miles by Class, 1955-1961



Growth of Mail, Freight and Express Traffic, 1952-1961



*Including Charter

Outlook

In 1962 TCA completes a quarter century of transportation service to Canada. It is appropriate that this should be a time when the attainment of a balanced fleet of the most modern aircraft, supported by good facilities and trained personnel, gives TCA an unprecedented capacity for public service. While 1961 was a period of sometimes difficult adjustment, the present year should find the Company in a strong position to concentrate its efforts upon improved performance and greater efficiency.

With the installation in Toronto of the Central Registry Computer of TCA's new electronic reservations system, the airline expects to make this valuable addition to its customer service facilities in 1962. Testing of field equipment in 38 Canadian and United States cities has been completed and staff are being instructed in the new techniques designed to achieve a notable improvement in both the accuracy and speed of reservations service.

To meet the growing demand for inexpensive air transportation TCA will, in 1962, alter the seating configuration of its fleet to provide a still higher ratio of Economy class seats.

While no major route extensions are at present contemplated, every effort will be made to improve the quality of existing services through superior schedules, flight frequencies, and a wider application of the new aircraft. Due to the inability of the airports involved to handle Viscount aircraft, the Company formally applied on July 14 for de-licensing of its service to Brandon, Yorkton, Swift Current and Medicine Hat. Public hearings have been held to consider the applications of regional carriers who wish to assume responsibility for this operation and the matter now rests with the Air Transport Board. TCA operations to Brussels will be suspended in 1962 due to failure of traffic to support an economic service.

The financial outlook is uncertain. During the past year the entire North American airline industry has been confronted with acute economic problems, largely related to the tremendous increase in carrying capacity of the new aircraft types, coupled with heavy competition, particularly on the North Atlantic. These obstacles remain formidable but there is reason to hope that a strengthening of the North American economy and an attendant growth in traffic may partly alleviate the situation. In the light of the large reduction in T.C.A.'s unit operating expenses achieved in 1961 it seems doubtful if a further lowering can be attained at the present time without deteriorating service standards. On the other hand, any future increases in unit revenues will have the effect of improving the Company's net financial position. Some upward adjustment of the present domestic passenger tariff appears unavoidable.

In its twenty-fifth year of service TCA will continue its contribution to the economic and social progress of Canada by providing both at home and abroad the highest possible standards of modern transportation and the lowest fares and rates compatible with financial stability.

For the Directors,

G. R. McGregor,

President.

BALANCE SHEET

as at December 31, 1961

ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash	\$ 2,056,422	Accounts payable	\$ 14,845,471
Accounts receivable		Traffic balances payable to other	
Government of Canada	2,994,698	airlines	5,751,559
General traffic	8,844,483	Air travel plan deposits	1,758,225
Other	4,503,125	Salaries and wages	2,539,141
Materials and supplies—		Unearned transportation revenue	3,400,879
at cost less obsolescence	23,992,476	Interest payable	3,161,127
Other current assets	493,150		31,456,402
Insurance Fund	\$ 42,884,354	Loans and Debentures—Canadian National Railways	
	8,362,357	Notes payable	\$ 45,571,000
		Debentures	182,100,000
			227,671,000
Capital Assets		Reserves	
Property and equipment—at cost	\$ 280,138,912	Insurance	\$ 8,362,357
Less: Accumulated depreciation	69,896,809	Properties, plant and equipment	4,238,705
		Capital Stock	
Progress payments	\$ 210,242,103	Common stock—authorized 250,000	
Unamortized aircraft introductory	12,191,885	shares par value \$100 per share	
costs	3,047,765	—issued and fully paid, 50,000	
		shares	5,000,000
			\$ 276,728,464

Capital Commitments and Contingent Liabilities

Balance of payments for equipment and construction under contract..\$	33,000,000
Notes under discount with banks in connection with the Pay Later plan	2,225,000

J. A. deLALANNE,

Chartered Accountant,

Auditor.

W. S. HARVEY,
Comptroller.

This is the balance sheet referred to in my report to the Minister of Transport dated February 8, 1962.

STATEMENT OF INCOME

Operating Revenues

	1961	1960
Passenger	\$143,301,442	\$127,595,694
Mail	10,245,935	10,244,192
Express and freight	8,447,115	7,931,310
Excess baggage	772,857	1,131,729
Charter	756,771	506,872
Incidental services—net	1,911,588	1,576,729
	<u>\$165,435,708</u>	<u>\$148,986,526</u>

Operating Expenses

Flying operations	\$ 37,968,236	\$ 34,850,097
Maintenance	34,816,104	37,032,782
Passenger service	13,660,235	11,572,876
Aircraft and traffic servicing	25,757,021	23,377,049
Sales and promotion	24,509,908	21,800,032
General and administrative	6,658,664	5,629,809
	<u>\$143,370,168</u>	<u>\$134,262,645</u>

Income from Operations	\$ 22,065,540	\$ 14,723,881
Depreciation and ammortization	19,921,497	13,671,303

	\$ 2,144,043	\$ 1,052,578
Non-operating income—net	1,917,208	4,437,538

Income before Interest Expenses	\$ 4,061,251	\$ 5,490,116
Interest on loans and debentures	10,511,333	8,097,466

Deficit—Recoverable from Government of Canada	\$ (6,450,082)	\$ (2,607,350)
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NOTE: For comparative purposes, 1960 operating expenses have been restated to conform with Air Transport Board Classification of Accounts.

AUDITOR'S REPORT

To the Honourable, the Minister of Transport,
Ottawa, Canada

I have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1961 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1961 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.

J. A. deLalanne,

Chartered Accountant.

February 8, 1962.

SIGNIFICANT STATISTICS

	1961	1960	% Change
Revenue Passengers Carried	3,712,068	3,440,303	+ 8%
Revenue Passenger Miles (000's) ...	2,481,122	2,050,600	+21%
Mail Ton Miles (000's)	11,934	11,593	+ 3%
Express Ton Miles (000's)	3,093	2,887	+ 7%
Freight Ton Miles (000's)	20,998	17,981	+17%
Revenue Ton Miles (000's)	278,455	233,401	+19%
Available Seat Miles (000's)	3,869,156	3,108,506	+24%
Available Ton Miles (000's)	521,625	402,892	+29%
Revenue Passenger Load Factor	64.1%	66.0%	
Weight Load Factor	53.4%	57.9%	
Average Flight Stage Length—Miles .	348	337	+ 3%
Average Passenger Journey—Miles ..	668	597	+12%
Available Ton Miles per Aircraft Hour	2,585	1,549	+67%
Average Number of Employees	11,707	11,172	+ 5%
Available Ton Miles per Employee ..	44,557	36,063	+24%

The CHAIRMAN: Mr. Fisher has a question.

Mr. CHEVRIER: Before you proceed to Mr. de Lalanne, Mr. Chairman, I would like to say here, on behalf of our members at least, and I hope I am speaking for the rest, that I like the way in which Mr. McGregor gave his evidence. It was both very informative and helpful. I certainly enjoyed this part of the proceedings and I want him and his officers to know that we, at least, and I am sure the rest of the members, feel he has done an excellent job in the presentation of this report.

Mr. SMITH (*Calgary South*): To add to what Mr. Chevrier has said, Mr. Chairman, and because I, for one, have been a little conversational in these hearings, I would like to say that I subscribe to the remarks made by Mr. Chevrier. I once served under Mr. McGregor, although I do not think he remembers it. I can only say of those who criticize T.C.A. that they have not flown in any other air line, and I think that says a lot.

The CHAIRMAN: Mr. Chevrier and Mr. Smith speak on behalf of all the committee, I am sure.

Mr. MCGREGOR: Thank you.

Mr. FISHER: I thought Mr. Smith came here to bury Caesar and not to praise him.

Mr. SMITH (*Calgary South*): Mr. Fisher, I do not impute motives, as you do.

The CHAIRMAN: Even Mr. Fisher does not question your sincerity in that regard.

The CHAIRMAN: Mr. Fisher, would you then proceed with your questioning of Mr. de Lalanne.

Mr. FISHER: Mr. de Lalanne I presume you made a special check or, at least, a check on expense accounts and procedures in the same way as you did in the case of the C.N.R.?

Mr. DELALANNE: Yes, that is part of the regular audit. I asked my officers to pay particular attention to that.

Mr. FISHER: And there was no question at all in these respects.

Mr. DELALANNE: No.

Mr. FISHER: There were no high expense accounts, as far as you know?

Mr. DELALANNE: Well, that is a matter of opinion, but I have not heard of any accounts that would be considered excessive.

The CHAIRMAN: Any further questions? If not, we need a motion to pass the Auditor's report.

The CHAIRMAN: We require a motion now for the adoption of the auditor's report.

Moved by Mr. Ouellet, seconded by Mr. Rinfret, that the auditor's report be adopted.

Motion agreed to.

The CHAIRMAN: When Mr. Gordon was here we forgot to pass the following:

TRANS-CANADA AIR LINES

(Presented for inclusion in the Financing and Guarantee Act)

1962

Proposed Net Expenditures—To Be Borrowed \$ 9,800,000

January 1, 1963 to June 30, 1963. Interim financing

authority required with respect to Capital Expendi-

tures authorized in 1962 and prior years \$16,000,000

NOTE: T.C.A. requirements for capital funds are not financed from C.N.R. self-generated funds (accruing from depreciation, etc. and the sale of preferred stock) but are met through borrowings authorized by the Financing and Guarantee Act.

Mr. BALCER: This is an item we forgot to pass when Mr. Gordon was here.

Mr. FISHER: I would not want to move that.

The CHAIRMAN: I am glad you are preserving your independence; I will get someone else to move it then.

Mr. FISHER: One of my colleagues who is not in the committee probably would be very critical if I did.

The CHAIRMAN: Oh, I see.

The CHAIRMAN: This is moved then by—

Mr. CARTER: I will move anything now.

The CHAIRMAN: It is moved by Mr. Carter, seconded by Mr. Smith (*Calgary South*).

Agreed to.

The CHAIRMAN: We have the Department of Transport Railway and steamship services item in the amount of \$6 million for the Newfoundland ferry and terminals.

Railway and Steamship Services

Vote 80—Payments to the Canadian National Railway Company (hereinafter called the company) upon applications approved by the Minister of Transport made by the company to the Minister of Finance, to be applied by the company in payment of the deficits, certified by the auditors of the company, arising in the operations in the calendar year 1962—Newfoundland Ferry and Terminals, \$6,552,500.

Mr. FISHER: I think we had better filibuster this.

The CHAIRMAN: I think Mr. Carter will move that.

Mr. CARTER: Yes, and second it as well.

The CHAIRMAN: It is seconded by Mr. Prittie.

Item agreed to.

The CHAIRMAN: We also have the Department of Transport railway and steamship services item in respect to the Prince Edward Island car ferry and terminals in the amount of \$3,359,000.

Vote 85—Payments to the Canadian National Railway Company (hereinafter called the company) upon applications approved by the Minister of Transport made by the company to the Minister of Finance, to be applied by the company in payment of the deficits, certified by the auditors of the company, arising in the operations in the calendar year 1962—Prince Edward Island Car Ferry and Terminals, \$3,359,000.

Mr. LAING: What has this reference to?

The CHAIRMAN: It has reference to the Prince Edward Island car ferry and terminals.

Mr. BENEDICKSON: These are items that appear in the blue book of revised estimates?

Mr. BALCER: Yes. There are three items involved.

Mr. BENEDICKSON: I presume we will have the right to debate these in the committee of the whole.

Mr. BALCER: In that event what is the purpose of passing them now?

Mr. FISHER: If that is the attitude taken perhaps we had better have a discussion in regard to the causeway.

Mr. BALCER: That has nothing to do with these items. That would fall under the Department of Public Works.

We have three items here to deal with. One has regard to the C.N.R. steamship services in Newfoundland.

Mr. BENIDICKSON: These all involve assets given to the C.N.R. to manage?

Mr. BALCER: Yes.

Mr. BENIDICKSON: Because they are in deficit positions they require appropriations by parliament?

Mr. BALCER: That is right. Usually the president of the C.N.R. is here to answer questions in regard to such items.

Mr. LAING: Mr. Chairman, perhaps this is the appropriate time for me to ask the minister why we have the mystery involving the payment of several millions of dollars annually in subsidies for ferry services on the Atlantic coast and none on the Pacific coast?

Mr. FISHER: You have got that wacky Bennett out there.

Mr. LAING: Has this anomaly resulted merely through history?

Mr. BALCER: There are some subsidies paid in this regard on the west coast.

Mr. CARTER: We always wonder why a bonus is paid for the catching of dogfish on the west coast, yet none is paid on the east coast.

Mr. LAING: Perhaps there are more dogfish out there.

Mr. FISHER: Are we finished, Mr. Chairman?

Mr. LAING: I should like the minister to tell me whether the anomaly I referred to has resulted from history or not?

Mr. BALCER: Yes, this is part of history.

Mr. BENIDICKSON: Perhaps this had something to do with confederation.

Mr. BALCER: When Newfoundland joined the confederation, under the terms of joining, the government was obliged to maintain a ferry service between North Sydney and Port aux Basques.

Mr. LAING: Why is there a subsidy in respect of Bar Harbour, Maine.

Mr. BALCER: That is a good question. That is an essential service and perhaps another result of history.

Mr. LAING: Contact with San Francisco and Seattle is essential to us on the west coast.

Mr. BALCER: Yes, but the services on the west coast are probably meeting their costs, whereas these services do not meet their costs.

Mr. LAING: But they are essential services?

Mr. BALCER: Yes. The Bar Harbour ferry carries the lobster catch from Lunenburg to this area and it is extremely important to the economy of Nova Scotia, as a result of which we feel it should be subsidized.

Mr. LAING: Have we been asleep in the west or have you been more wide awake in the east?

Mr. FISHER: The squeaky wheel gets the grease.

Mr. McDONALD: (*Hamilton South*): You are too rich in the west.

The CHAIRMAN: Mr. Laing do you feel generous enough to move that this item in respect of the eastern area be granted?

Mr. LAING: Yes, I will, Mr. Chairman.

The CHAIRMAN: I think Mr. Smith of Calgary will second it.

Mr. SMITH (*Calgary South*): I will second that motion, Mr. Chairman.
Item agreed to.

The CHAIRMAN: We now must consider an item in respect of the Maritime Freight Rates Act involving \$13,975,000.

Railway and Steamship Services

Vote 100—Maritime Freight Rates Act—Payment to the railway companies operating in the select territory designated by the act, of the difference occurring on account of the application of the act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by auditors of the said Company respecting the eastern lines of the Canadian National Railways and in the case of the other railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year, 1962, \$13,975,000.

Mr. FISHER: We have never had that item before this committee before, have we?

Mr. BALCER: Yes.

The CHAIRMAN: Yes, it has been before this committee.

Mr. SMITH (*Calgary South*): You have not stayed with us that long before.

Mr. LAING: Mr. Chairman, is the 20 per cent figure based on ton mileage?

Mr. BALCER: Yes.

Mr. BENIDICKSON: That is a statutory calculation.

Mr. FISHER: I think we had better pass this with a little bit of cheering because this is the last time it will be going through.

The CHAIRMAN: Do you wish to move the acceptance of this item?

Mr. FISHER: Yes, I will move that.

The CHAIRMAN: Moved by Mr. Fisher, seconded by Mr. Benidickson.

Item agreed to.

The CHAIRMAN: Shall I report the estimate to the house?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen I suppose our next meeting will be at the call of the Chair after the proceedings have been compiled and printed. In the meantime I thank you for your co-operation.

Mr. FISHER: Mr. Chairman, I have one question I should like to ask of the clerk.

Mr. SMITH (*Calgary South*): Are we likely to receive those printed reports this week, Mr. Chairman?

The CHAIRMAN: No, I do not anticipate that we will receive them before next week.

Mr. CARTER: Mr. Chairman, are these reports to be printed in both French and English simultaneously?

The CHAIRMAN: Yes.

Mr. BENIDICKSON: Mr. Chairman, I suppose the minister does not propose to advance the C.N.R. bill until we have had the opportunity of reading the minutes? I understand there is a resolution on the order paper?

Mr. BALCER: I think you are referring to the Minister of Finance, am I right?

Mr. FISHER: Mr. Chairman, I should like to ask the clerk a question in relation to the number of copies printed. Is there a large backlog because I have received a number of requests for these proceedings and on at least one occasion recently was not able to pick up the back issues. Did we ask for 800 to be printed and is that a substantial number?

COMMITTEE CLERK: Mr. Chairman, I cannot answer that question. I am not familiar with the situation but I shall inquire and make the answer available to Mr. Fisher.

The CHAIRMAN: Do you desire extra copies, Mr. Fisher?

Mr. FISHER: I always get extra copies but I am wondering whether, in view of the greater interest that seems to be developing each year in these proceedings, we have asked to have enough printed. It seems to me that we have just asked for the same number we had printed in past years.

The CHAIRMAN: I think we ordered 800 in English and 250 in French.

Mr. CARTER: Mr. Chairman, I should like to agree with what Mr. Fisher has said. Some issues were much more popular in past sessions and I was unable to get complete sets because some were missing.

Mr. FISHER: Perhaps we can discuss this question at our next meeting.

The CHAIRMAN: Yes.

Thank you very much gentlemen for your co-operation.

Mr. FISHER: Thank you for your beneficence.

Mr. SMITH (Calgary South): Thank you, Mr. Chairman.

Mr. BALZER: I think we should move a vote of thanks to the chairman.

The CHAIRMAN: Thank you gentlemen.

